Bell

Bell Canada Annual Report 1982

"The integrated relationship of the Bell Canada enterprises in telecommunications research, manufacturing and operations (illustrated on the cover) has contributed substantially to the company's success at home and abroad, bringing benefits to Canadians from coast to coast."

A.J. de Grandpré

during a television interview, in January 1983

Financial Highlights

		1982	1981	1980
	All figures in Canadian dollars			Dollars in millions, except per share amounts
Consolidated	Earnings per common share (before extraordinary items)	$ 3.11	$ 2.97	$ 2.00
	Total revenues	$8,411.3	$7,389.9	$6,037.0
	Income before extraordinary items	$ 622.2	$ 550.7	$ 363.7
	Net income	$ 626.1	$ 559.4	$ 273.7
Non-consolidated	Earnings per common share	$ 2.56	$ 2.54	$ 2.01
	Total revenues	$4,828.4	$4,338.3	$3,656.7
	Net income	$ 521.4	$ 476.0	$ 365.9
	Rate of return on average common equity	12.72%	13.09%	10.64%
	Gross capital expenditures	$1,417.2	$1,401.5	$1,297.0

Contents

Bell Canada
Executive Offices
1050 Beaver Hall Hill
Montreal, Quebec
H2Z 1S4

1983 Annual Meeting
The Annual and Special General Meeting of the Shareholders will take place at 10:00 a.m. Thursday, April 28, 1983 at the Roy Thomson Hall, Toronto, Ontario.

Form 10-K
Bell Canada's Annual Report on Form 10-K is available from the date of its filing with the Securities and Exchange Commission in the United States by writing to:
The Corporate Secretary
Bell Canada
1050 Beaver Hall Hill
Montreal, Quebec
H2Z 1S4

Sur demande, le secrétaire de la société vous fera volontiers parvenir un exemplaire français du rapport annuel.

Letter to shareholders

Dear shareholder,

We have just lived through a year marked by a steady diet of disturbing economic news. A stubborn rate of inflation crippled the economy. High interest rates added their dampening effect. Most business sectors were shaken by a broadly-felt slowdown.

This recession was felt throughout North America and the world. It had its impact on our corporation as well. We have had to live with rising costs and slower revenue growth.

For example, Bell Canada experienced a drop of nearly 180,000 in the number of company-owned telephones in service over the course of the year. This loss was a reflection of slower growth and also of the terminal attachment decision *(see box, page 9)*. Despite rigid controls, the cost of providing telecommunications service rose 15.5 per cent over 1981, a rate distinctly higher than the 13.4 per cent increase in revenues over the same period.

Slackening demand for service obliged Bell Canada to trim its capital spending program and continue its program of reducing operating costs, while minimizing the effect on employment and protecting its financial integrity.

Over the course of 1982, the number of Bell Canada employees decreased by nearly 3,000, mostly through attrition and early retirement. The salary levels of officers and department heads were frozen for a period of 18 months as of January, 1982. Increases in salary levels for all other managers were limited to six per cent starting January, 1983. To avoid layoffs, agreements for part-timing were negotiated with unions representing clerical and craft employees.

Despite measures of this kind — which should have greater impact on 1983 results — expenses continued to increase at a faster rate than revenues and Bell Canada's operating results were therefore somewhat disappointing in 1982.

Northern Telecom continued to gain ground...

Our manufacturing subsidiary, Northern Telecom, did considerably better. It continued to gain ground in key markets and product areas, outperforming many international competitors, some of whom experienced little growth during the period.

The **Review of activities** section takes a closer look at Northern Telecom's performance, highlighting the relevant financial and operating data. We are pleased to report that its results last year, surpassed even the record performance achieved in 1981.

Tele-Direct Ltd., renamed Bell Canada Enterprises Inc. on June 22, 1982, in anticipation of our proposed reorganization plan (discussed later in this report), also contributed to the past year's success, with increased revenues from its telephone directory publishing, commercial printing and other activities.

Bell Canada International (BCI), our consulting subsidiary, continued to be active around the world in 1982.

Results were unquestionably positive...

The company was at work in Trinidad and Tobago, Iraq, the United States and 25 other countries.

In short, the 1982 results posted by the Bell group of companies were unquestionably positive. We owe our appreciation to the men and women of Bell Canada, Northern Telecom and our other subsidiaries for their energy and enterprise.

In the spring of 1982, Bell Canada applied to the department of Consumer and Corporate Affairs for, and was granted, a certificate of continuance under the Canada Business Corporations Act. This enabled the corporation to continue in business under legislation that governs a great number of business concerns in Canada.

The year could have closed on a more encouraging note, however, had the proposed establishment of Bell Canada Enterprises as the new parent corporation of the Bell group of companies occurred before December 31, 1982, as had been intended.

On June 23, 1982, we announced publicly our intention to reorganize our corporate structure. Following an interim order of the Quebec Superior Court to place the share exchange aspect of the reorganization plan before our 300,000 shareholders, and prior to presenting it to the court for approval, we circulated detailed information to shareholders, and convened a series of special meetings in August. At those meetings, our shareholders almost unanimously supported and authorized the proposal.

We then appeared before the Quebec Superior Court for final approval, at which time the federal government challenged the authority of the court to approve the transaction without the prior approval of the Canadian Radio-television and Telecommunications Commission (CRTC). The Quebec Superior

The Quebec Superior Court ruled in our favour...

Court ruled in our favour, stating that the approval of the CRTC was not required. The federal government subsequently appealed that judgment, and the hearing on the appeal was held before the Quebec Court of Appeal on February 22, 1983. (At press time, the judgment had not been rendered.)

Also, the federal government ordered the CRTC to inquire into certain aspects and consequences of the proposed reorganization, and to report to the cabinet by the end of March, 1983.

As was reported in the third quarter report to the shareholders, the Directors were dismayed by the government's decision to intervene in the decision taken by the shareholders and approved by the court.

Many hundreds of shareholders responded to the suggestion made in the quarterly report and conveyed their views on this matter to their members of Parliament.

As well as raising the legislators' awareness of this issue, their letters and comments were a visible demonstration to parliamentarians that there are a significant number of people in this coun-

try who care very much about the private enterprise system.

Several points underlying the reorganization were evident to the shareholders who sent us copies of their correspondence, and are worthy of repetition:

• The country's telephone and telecommunications systems are of vital importance; more so now, in an information-based economy, than ever before. The proposed reorganization will strengthen the group of companies and should therefore be encouraged in every possible way.

The proposed reorganization is vital to all Canadians...

• The Bell group of companies need to have the same degree of structural and operation flexibility as their overseas competitors in order to compete successfully for export business. Such business, and the contribution it makes to the country's balance of payments, is vital to all Canadians.

• The management resources of this large group of companies must be used in the most efficient and effective way if all of the companies involved are to benefit fully. The reorganization is designed to enable this to be done, and the benefits will flow to all customers and suppliers of these companies.

An encouraging sign of better things to come in 1983 is the positive nature of the third and final report of the Restrictive Trade Practices Commission (RTPC).

The commission's report was released January 19, 1983 by the federal department of Consumer and Corporate Affairs which observed "The commission found that the development of the Canadian telecommunications equipment industry had been well served by telephone company/manufacturer relationships."

On the subject of vertical integration, the RTPC report noted that Northern Telecom "has been a very successful company", and added that "Bell has contributed to this success, most obviously by providing a market and research support."

The commission said the "evidence does not justify the imposition of a system of competitive bidding on Bell", and added that "Bell has perhaps been better off in the long run having waited for Northern's product improvements."

The commission asserted that it "does not believe that specific remedies are required", but suggested some measures intended to ensure that vertical integration continues to operate in the public interest.

Canadian telecommunications expertise is admired throughout the world. Acknowledging, as it does, the value of the relationship among the Bell Canada operating, research and production entities, this report helps to support our continuing initiatives in intensely competitive international markets.

A. J. de Grandpré
Chairman of the Board

J.C. Thackray
President

February 23, 1983

Consolidated earnings increase to $3.11 despite poor economy

Despite the effects of the poor economy, increased net revenues from telecommunications operations in 1982, combined with the continued healthy performance of Northern Telecom, helped to improve the corporation's consolidated earnings.

Consolidated income before extraordinary item, in 1982, was $622.2 million, or $3.11 per common share, compared with $550.7 million, or $2.97 per share, in 1981.

The non-consolidated rate of return on average common equity for 1982 was 12.72 per cent, compared with 13.09 per cent a year earlier.

Annual dividend raised

On January 15, 1983 a quarterly dividend of $0.52 per common share — $0.03 higher than the dividend for the previous quarter — was paid. This was the tenth consecutive year that the dividend was raised. The current indicated annual dividend is $2.08.

In spite of substantial cutbacks in capital expenditures and operating expenses, the corporation's telecommunications sector was affected by worsening economic conditions. Revenues did not keep up with the rising costs of providing service.

Telecommunications operating revenues rose 13.3 per cent in 1982, mostly as a result of some $388 million generated by the combined effect of the 1981 rate award, which became effective October 2, and the six per cent increase in rates which became effective September 1, 1982.

On June 28, Bell Canada had requested general rate increases designed to provide a 15.1 per cent increase in revenues during 1983. The application was withdrawn in August, following an order in council of the government of Canada prescribing increases of six per cent effective September 1, 1982 and a further five per cent effective September 1, 1983.

Telephones in service decreased

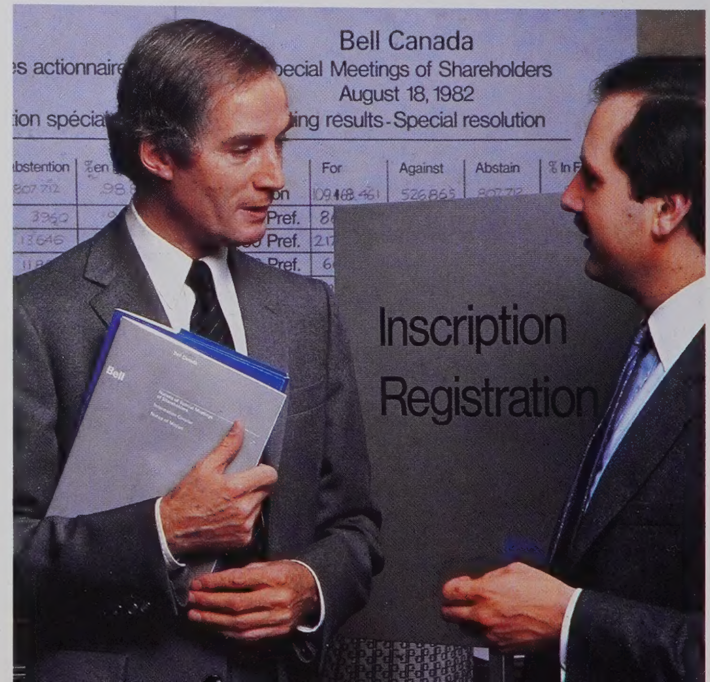
Bell Canada recorded a decrease of close to two per cent in the total number of telephones in service owned and operated by Bell Canada in 1982, compared with a year earlier. The decrease occurred mainly in business main telephones as well as in business and residence telephone extensions and is due to the effects of the depressed economy and of the CRTC interim decision, now confirmed *(see box, page 9)*, permitting subscribers to connect their own equipment to Bell Canada's facilities. There was little change in the number of long distance messages, but modest growth was reported in long distance revenues.

Telecommunications operating expenses in 1982 increased by 15.5 per cent on a non-consolidated basis as a result of higher wages and other employee-related costs, as well as higher depreciation charges and taxes other than income taxes.

Notwithstanding reductions in operating expenses and curtailments in hiring and promotions, Bell Canada has had to live with increased costs for energy and other goods and services provided by non-controlled sources, costs

"We must maintain the confidence of those who invest in Bell Canada. Our highest financial priority is to achieve returns which are fair to both our customers and our investors."

J. Stuart Spalding
Vice-President & Treasurer
Bell Canada



"Bell Canada has the largest number of registered shareholders of any Canadian corporation. We are here to make it easier for them to understand and to invest in our corporation."

Yolande Keens-Douglas
Manager — Shareholder Communications Bell Canada

which, in many cases, are rising at a rate exceeding that of the federal government's six and five per cent wage and price guidelines.

Bell Canada is also committed to wage contracts with most of its unionized employees, providing for annual increases of 10 per cent and more.

Healthy financial position

The corporation needs to preserve a healthy financial position in order to be able to pay a satisfactory return to its shareholders and thus to attract the amounts of capital necessary to meet Bell Canada's service obligations to customers.

New debt and equity must be raised in financial markets because Bell Canada, like many other capital-intensive industries, cannot generate sufficient funds from its operations alone to finance its construction expenditures. In so doing, the corporation must take into consideration the appropriate proportions of debt and equity in its capital structure, as well as conditions on Canadian and international capital markets.

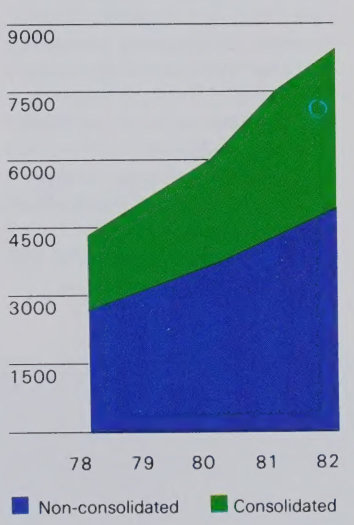
The corporation has maintained its ability to access these capital markets at a reasonable cost when funds are required, even in the difficult market conditions of the recent past.

Shares and debentures

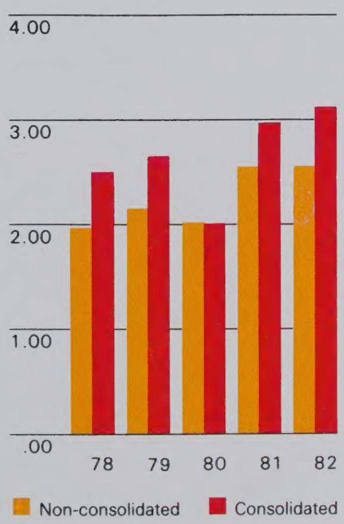
Preferred shares were offered for sale in Canada, and debentures in Europe in 1982 to raise close to $340 million. Another $116.1 million in new equity was raised through the Shareholder Dividend Reinvestment and Stock Purchase Plan and the optional Stock Dividend Program.

In March, a $236.25 million issue of Bell Canada $2.70 preferred shares was sold in Canada. The shares, priced at $20 to yield 13.5 per cent, are convertible for ten years into Bell Canada common shares on the basis of one common share for one preferred share.

Total revenues
$ Millions



Earnings per common share before extraordinary items
Dollars



In late May, a Can. $100 million issue of debentures was sold in Europe. The debentures, series DL, mature on June 9, 1989, and were offered at 99.50, with an annual coupon rate of 16 per cent.

During the year, the corporation also redeemed the small remaining balances of four series of preferred shares.

Shareholder plans

Participation in the Shareholder Dividend Reinvestment and Stock Purchase Plan (DRP) increased in 1982, producing $104.8 million in new equity. As of January 17, 1983, 26 per cent of common shareholders representing 20 per cent of common shares outstanding were participating in DRP.

Participation in the optional Stock Dividend Program (SDP) has also increased, producing $11.3 million in new equity in 1982. As of January 15, 1983, 2.3 per cent of common shareholders representing 3.5 per cent of common shares outstanding were participating in SDP.

(For more information on both plans, see page 49.)

Good year or bad, capital requirements are enormous

During 1982, even though economic conditions were highly unfavorable, Bell Canada* continued to invest large sums to meet the needs of its subscribers and to modernize and improve its telecommunications facilities.

In fact, capital requirements are enormous in good years and in bad. Last year's experience tends to prove this true.

While capital spending levels plummeted in almost all sectors of the economy, Bell Canada invested an additional $1.4 billion in its network, approximately the same as in 1981.

There are several reasons for expenditures of this magnitude. For one, we believe that subscribers' requirements for service are of paramount importance. Two thirds of Bell Canada's capital investment in 1982 went towards meeting subscribers' requirements.

Staying at the leading edge of technological development is the only way to retain a competitive position in world markets. In a sector as vital as telecommunications, this is important both to Bell Canada's customers and to Canada as a whole.

Quality of service

Another large portion of capital expenditures was used to improve the quality of service in specific areas such as operator services, line testing, switching and transmission, and rural service, and to continue the construction of regional headquarters buildings.

Operator services — Continuing installation of the traffic operator position system (TOPS™) in the telephone operators' workplace cost $30 million last year. This program, launched four years ago, has transformed the operators' working methods, improved customer service and significantly increased employee productivity.

Line testing — Some $15 million was spent in 1982 on the centralized automated loop reporting system (CALRS™), a system that computerizes the operation of a test centre. The data provided by the system is far more accurate and can be analysed more quickly. The system has improved radically the overall efficiency of Bell Canada's repair operations.

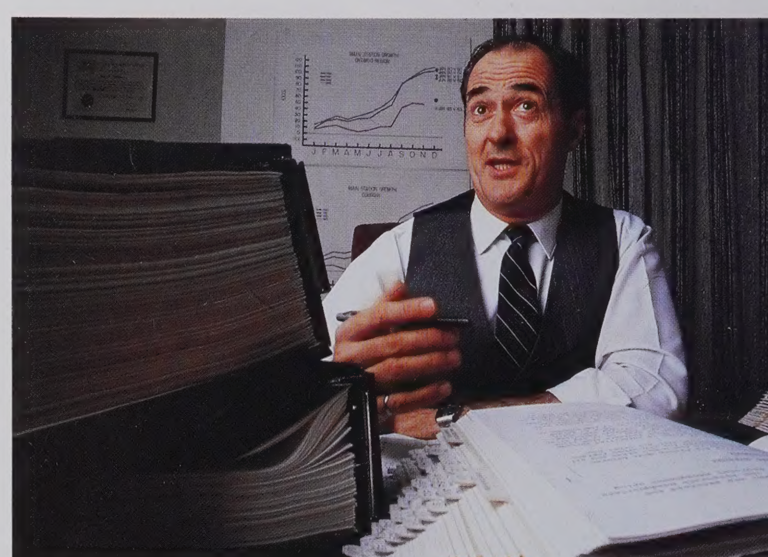
Switching and transmission — Local and long distance telephone users benefitted from the installation of more than $200 million worth of digital equipment, including DMS-100 and DMS-200 switching machines. The increased reliability, maintainability and other features of these automated switchers are now universally recognized.

Rural service — The five-year non-urban service improvement program was completed in 1981 at a cost of around $1 billion. Last year, an additional $100 million was spent to provide for growth and to further improve service in rural areas.

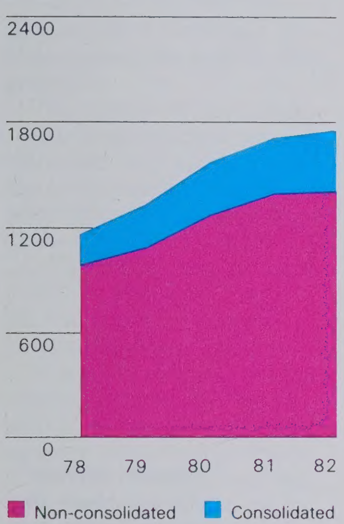
Office building construction — In 1982, some $123 million went towards construction of head offices for Bell Canada's Quebec and Ontario operations. The final move to Toronto's Trinity Square development and the first move to the Bell Canada/National Bank complex in Montreal are both scheduled for spring, 1983.

"In a sector as vital as telecommunications, the only way to retain a competitive position in world markets is to stay at the leading edge of technological development."

Elie J. Thimot
Director —
Capital Management
Bell Canada



Capital expenditures
$ Millions



Enhancing productivity

Other projects aimed at enhancing the productivity and profitability of Bell Canada's operating methods are in the planning stages.

The computer-based TOPS system has already revolutionized the telephone operators' working methods to better suit today's needs. Bell Canada has also drawn on computer technology to improve the efficiency of its directory assistance service. Now it is planning to improve the methodology used by its service representatives in much the same way.

Bell Canada is also looking at ways to streamline the working methods of its technicians, enabling them to keep up with today's changing needs and to be prepared to tackle those of tomorrow.

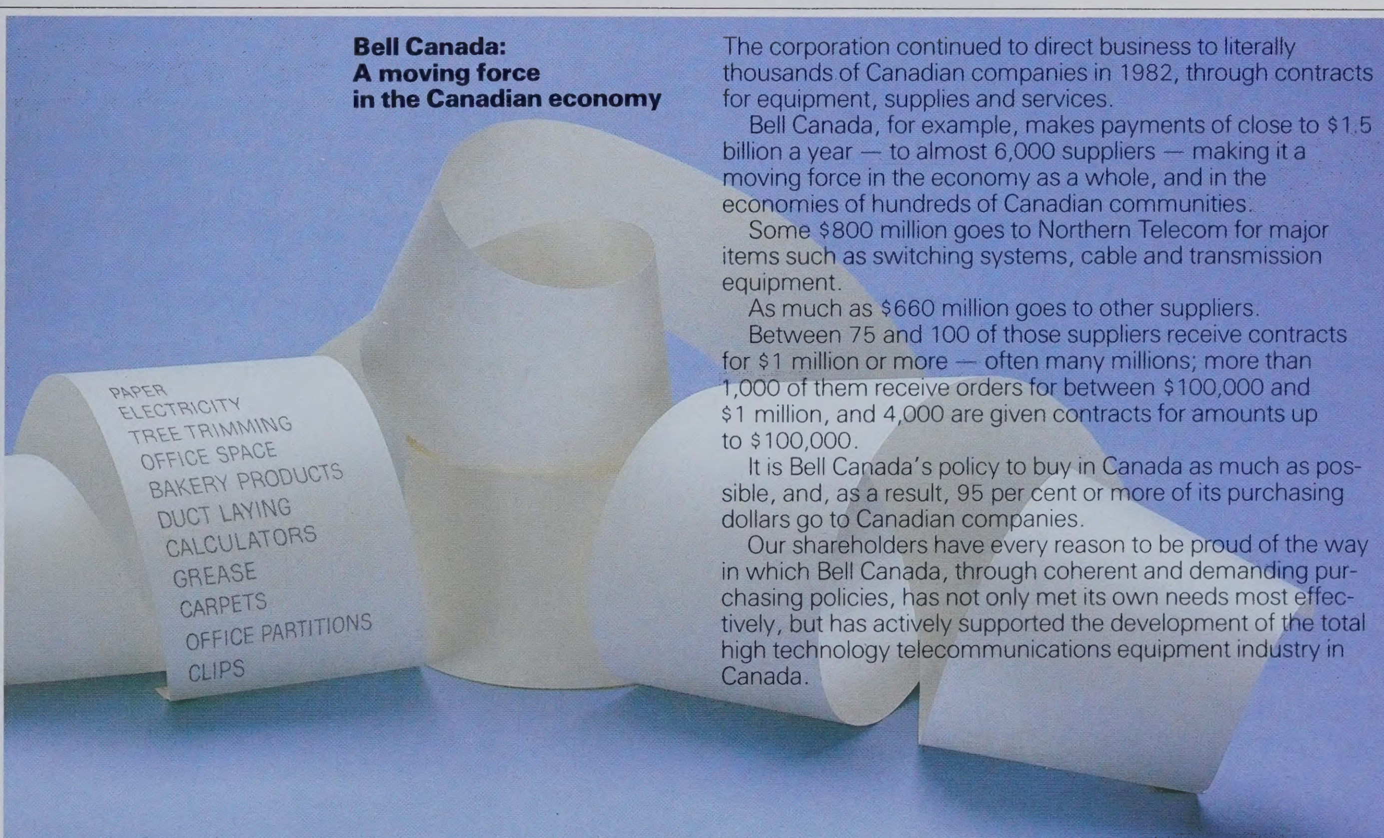
Capital expenditures reduced

Because of the current economic conditions, capital expenditures in 1982 were lower than planned. Some $200 million were cut from the original budget. Forecast expenditures for 1983 have also been reduced, to approximately $1.2 billion.

For the time being, Bell Canada is involved in a management situation that calls for making choices and revising, delaying, or sometimes even eliminating projects while continuing to provide a quality of service which already exceeds most criteria set by the regulator.

Still, these economic difficult times will not last forever. Conditions will improve. Bell Canada, for its part, fully intends to make its contribution by continuing to generate economic activity, and by assuring that, when the economy does recover, the necessary telecommunications systems will be in place to support it.

* Bell Canada provides telecommunications services and facilities to some 6,000,000 customers in the provinces of Ontario and Quebec, and in the Northwest Territories. At year-end, it had some 56,000 employees.



Bell Canada: A moving force in the Canadian economy

The corporation continued to direct business to literally thousands of Canadian companies in 1982, through contracts for equipment, supplies and services.

Bell Canada, for example, makes payments of close to $1.5 billion a year — to almost 6,000 suppliers — making it a moving force in the economy as a whole, and in the economies of hundreds of Canadian communities.

Some $800 million goes to Northern Telecom for major items such as switching systems, cable and transmission equipment.

As much as $660 million goes to other suppliers.

Between 75 and 100 of those suppliers receive contracts for $1 million or more — often many millions; more than 1,000 of them receive orders for between $100,000 and $1 million, and 4,000 are given contracts for amounts up to $100,000.

It is Bell Canada's policy to buy in Canada as much as possible, and, as a result, 95 per cent or more of its purchasing dollars go to Canadian companies.

Our shareholders have every reason to be proud of the way in which Bell Canada, through coherent and demanding purchasing policies, has not only met its own needs most effectively, but has actively supported the development of the total high technology telecommunications equipment industry in Canada.

Meeting the challenges of competition

As the 1982 fiscal year opened, many observers felt it would be a decisive one for Bell Canada.

Some 20 months had passed since the CRTC's interim decision — the basis of which was maintained in the final decision *(see box)* — to allow terminal connection; and the time had come for the Canadian telecommunications leader to show how it could adapt to an entirely new operating environment.

Bell Canada has met the challenge.

Business communications systems

In the business terminal equipment market, for example, 1982 was the year in which Bell Canada strongly asserted its position as a competitive supplier of telecommunications goods and services.

The SL-1 private branch exchange (PBX) has continued to gain ground over rival systems because of its obvious advantages in the area of flexibility, reliability and overall efficiency.

A high-technology product which meets all the requirements of modern business, the SL-1 is a typical example of the benefits of vertical integration. It was developed by Bell-Northern Research, manufactured by Northern Telecom and first brought to market by Bell Canada. The SL-1 is the most successful fully digital PBX in the world. By year end, more than 5,000 SL-1s were serving more than two million telephone lines in 40 countries.

Ushering in the future

Bell Canada is playing an important role in ushering in the office of the future. One result is Envoy 100™, an electronic messaging service which attracted much attention during its first full year on the business market. As a management tool, Envoy 100 allows the user to compose, revise, transmit and receive messages anywhere in Canada.

As well, Bell Canada pulled ahead of its competitors last May when it introduced the Displayphone™ to the market. Displayphone is an integrated voice and data system which can be used to access or transmit data. Users can communicate by phone while at the same time viewing information displayed on a video screen. Information from a variety of data bases and text messaging services, such as Envoy 100, can be accessed by using the conveniently-integrated keyboard.

Teletex service was announced in May, 1982 as the first business communications system of its kind in North America. Teletex ensures compatibility between word processing systems and electronic typewriters the world over. An estimated 2,000 companies are expected to use Teletex in its first year of service. That number could grow to 100,000 by 1990, when each user will have access to two million terminals worldwide.

"We plan to maximize our share and penetration by supplying the market with a wide range of top quality telecommunications products and services."

Diane Long
Director —
Market Planning
Bell Canada

New marketing strategy

Bell Canada's marketing strategy was also significantly altered.

The number of new products offered to business was increased, and supply sources were diversified. Products from Mitel and Siemens, such as the SX-200, SX-20 and the SD-192 PBXs, were added to the SL-1, Vantage-12 and SL-100 systems manufactured by Northern Telecom.

In order to maintain the confidence of customers faced with an increasingly confusing range of choices since the introduction of interconnection, Bell Canada increased the information content of its advertising and promotion programs and expanded the coverage.

"The new SL-1 telephones give us more working room and, since the various hotel services can be accessed directly from each room, we have more time to handle calls to the front desk and other guest inquiries."

Sandra Westoff
Front desk clerk
Royal York Hotel

Recognizing staff involvement as a key factor in this new marketing process, Bell Canada created special dedicated sales teams, opened an information centre on competition, launched a specialized information bulletin, perfected market research methods, and expanded and rationalized the workforce.

In addition, Bell Canada established a group exclusively responsible for all services — voice, image and data — it provides to large customers whose operations are of a national scope.

Bell Canada has already demonstrated its excellent quality of service, its reasonable and clearly competitive prices and its unique resources. It intends to maintain a prime position in the new competitive market.

Terminal connection

CRTC decision dispels uncertainties

In its November 23, 1982 decision, the CRTC confirmed and extended its earlier interim ruling of August, 1980 on terminal connection.

The commission upheld the main premise of terminal connection — that telecommunications users should have the option of buying equipment from independent suppliers as well as renting such equipment from telephone companies.

But the commission also concluded that telephone companies should be allowed to sell such equipment without having to go through arm's length subsidiaries.

Nevertheless, the CRTC directed that where monopoly and competitive services were offered directly by a carrier, the commission would continue to oversee the rates, terms and conditions for competitive offerings.

Residence telephone customers with individual lines will be able to own their primary or main telephone sets, in addition to the extension telephone, as authorized under the interim decision. But the inside wiring will continue to be owned by the telephone companies.

The corporation believes the long-awaited decision will dispel the uncertainties on the future of competition in the terminal market. The corporation intends to continue to compete vigorously in all areas where it can.

New tariffs were filed by Bell Canada early in 1983, and the CRTC decision will become effective, through various phases, as the year progresses.

Keeping ahead of tomorrow's requirements

A fundamental objective of Bell Canada has always been to make optimal use of its existing transmission network by finding new uses and applications for it.

In each of the years 1983 and 1984, Bell Canada will invest more than $300 million to expand its digital switching and transmission capability to better respond to customer needs.

One of its objectives is to improve reliability, increase capacity and reduce costs to meet customer needs for innovative communications services.

Telephone lines and alarm systems

The year-long trial being conducted in Montreal and Toronto using existing telephone lines to carry alarm signals, demonstrates Bell Canada's ability to develop specialized communications services. Together with five major security companies and the Canadian Alarm and Security Association, Bell Canada has been testing its TELESYSTEMS 100™ service since September 21.

TELESYSTEMS 100 is one of the first of a new generation of telecommunications services that uses new technology on existing transmission facilities to keep ahead of tomorrow in the residence and business sectors.

Bell Canada is using data-above-voice technology on its telephone lines to provide the communications links in the trial. This permits participating security companies to monitor customers' alarm systems without affecting telephone service. When the alarm system detects a problem, a signal is transmitted over the customer's phone line through the Bell Canada switching offices to the security company.

Teleconferencing

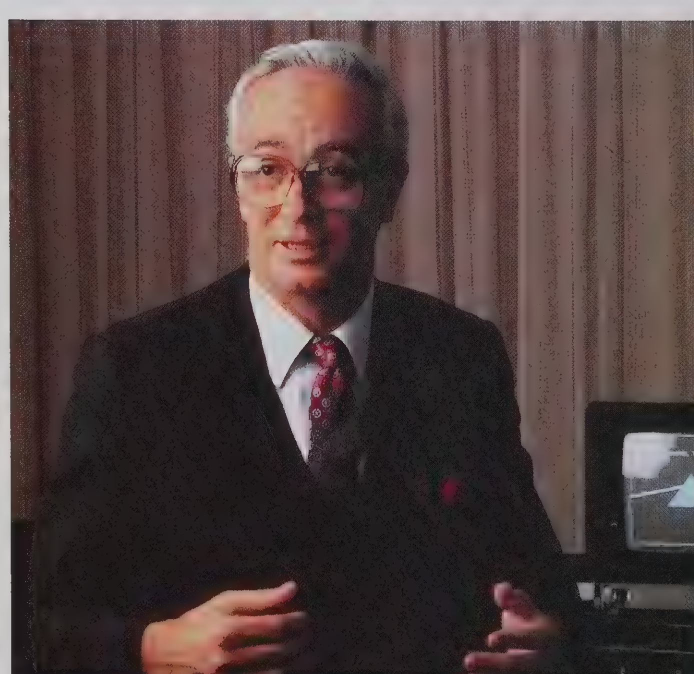
Teleconferencing in all forms — audio, audio-plus and video — is rapidly becoming an everyday office communications tool. New services continue to be developed in all sectors, greatly expanding the potential of teleconferencing. Such services contribute significantly to office productivity and result, as well, in time and dollar savings through reduced travel.

In 1982, Bell Canada introduced Conference 200, a network-based dial-in or "meet-me" audio service. Advances in technology will see the launching of two new services on a trial basis in 1983. Conference 300, a customer-dedicated automatic dial-in/dial-out audio service incorporating user-controlled access and security features; and Conference 500, a high quality color text/graphics service that makes use of Telidon technology.

The next major stage in the communications evolution will be to build intelligence into the network, so that the network can provide added functions and value to the user. For example, with electronic directories, a user could shop through the electronic Yellow Pages™ for the needed service, then simply push a button to be connected, leaving the network to worry about the dialing, routing, billing and other related procedures.

"Our objective is to build on our strengths, to develop ways to add new capabilities to the existing network, and to introduce new features that will make our network a better telecommunications medium than anyone else can offer."

John H. Farrell
Vice-President
Computer Communications
Bell Canada



Network enhancements

In the next few years, we will witness the introduction of substantial enhancements to the network.

With the successful launch of Anik C3 from the space-shuttle late last year, Bell Canada is now ready to begin introduction of innovative new business services capitalizing on the huge capacity and flexibility of Canada's satellite system.

One system, called the integrated satellite business network (ISBN), will provide new, larger capacity services, including the ability by the customer to rearrange his network to operate more efficiently, to add new locations or to have access to additional transmission facilities on request. Video conferencing and bulk data transfer would also become much more feasible.

Since last July, some 30 institutions located in major cities throughout Canada have been participating in a field trial of a service called iNet. iNet is an intelligent network capable of taking initiatives. It functions as a control centre, linking all businesses and giving all terminals easy and efficient access to the entire Canadian information market.

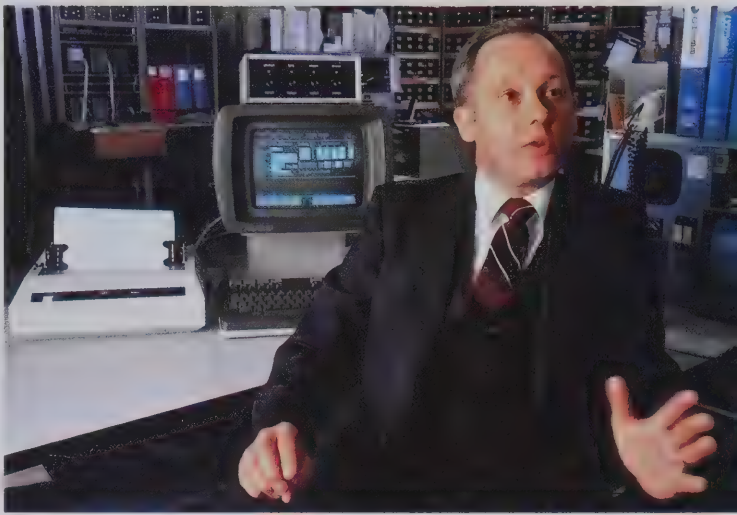
A service trial of long distance calling between Canadian and American cities, using the networks of the TransCanada Telephone System and MCI Telecommunications Corporation, is scheduled to begin on April 1, 1983. The service provides for a monthly fee with a tariff reduction for customer-dialed calls. Plans are being developed for a similar trial within Bell Canada's operating territory in the current year.

Spectrum of technologies

In summary, Bell Canada is using the spectrum of technologies, including satellites, fibre optics, digital radio and copper pairs to move information efficiently from desk to desk. It is building intelligence into the network to make it easy to use and to promote ready access to data bases all over the world.

A major portion of Bell Canada's research and development expenditures, which totalled $99.5 million in 1982, is being spent in support of such efforts.

Bell Canada will continue to play a significant role in developing the office of the future — a goal that will benefit all Canadians through enhanced productivity and business effectiveness.



"Telesystems 100 is the forerunner of many innovative communications services Bell Canada is developing to help the alarm industry keep ahead of growing security requirements."

Dennis Hollingshead
Vice-President and General Manager Chubb Security Systems

"Video conferencing and other teleconferencing services offered by Bell Canada are well appreciated by our customers. Through such services, we can move meetings to people, rather than move people to meetings."

Suzanne Boisvert
TV conference centre receptionist Bell Canada

Corporation has a significant role in the development of other nations

On December 13, Bell Canada completed its fifth year of the operations and management contract with the Ministry of Post, Telegraph and Telephone of the Kingdom of Saudi Arabia.

During those five years, Saudi Arabia acquired a telecommunications system as advanced as any in the world, and one which has grown at a faster rate than any other. More than 2,000 Bell Canada managers have worked, at one time or another during that period, in close association with their Saudi counterparts, and the total of employees and dependents sent from Canada to the Kingdom exceeded 5,000.

In that time, the number of working telephones increased to 725,000 from 126,000; switching capacity to 1,100,000 lines from fewer than 200,000 lines; international calls to 2,366,000 per month from fewer than 100,000, and the number of public coin telephones to 3,600 from none. The quality of telephone service improved dramatically.

Eight "telephone towns" erected by Bell Canada contain work centres, administrative space, housing and places of worship and recreation. The Riyadh telephone complex contains a data centre where 53 computer systems aid in the efficient administration of the telecommunications system.

Negotiations for a five-year contract are under way.

Worldwide activities

Through the marketing efforts of Bell Canada International (BCI)*, the expertise and systems which have earned for our corporation an enviable international reputation continued to be shared with other countries throughout the world.

During 1982, BCI was involved in 55 projects in 28 countries.

In October, BCI was awarded a two-year $13 million contract to assist in a major expansion and modernization of the telephone system of Trinidad and Tobago. This work is being carried out in association with Northern Telecom International Limited (NTIL), which will provide the required switching and transmission equipment as well as overall project management.

By early 1983, BCI had more than 40 managers at work in Trinidad. These managers advise their Trinidadian counterparts on all aspects of telecommunications operations, and help them develop and implement improved operational procedures.

Series of contracts

Since 1979, BCI has won a series of contracts in Iraq to supply, install and maintain private networks using Northern Telecom SL-1 automatic business exchange equipment

"The telecommunications needs of many countries throughout the world are immense, and present challenges for which we are well prepared, thanks to the wealth of experience and know-how of the Bell group of companies."

Bruce H. Tavner
Vice-President (International)
Bell Canada

and to train Iraqi technicians and engineers in Canada. During 1982, an average of 15 Canadians were employed on those projects in Iraq. The value of the contracts to date is more than $40 million.

During the past year, BCI continued to manage the Canadian International Development Agency's Panaftel project in Senegal, Mali, Upper Volta, Niger and Benin. That four-year, five-nation project is to establish a microwave network between Dakar and Cotonou. In Cameroon, BCI completed a study with recommendations for the reorganization of that African nation's Ministry of Post and Telecommunications.

In 1982 BCI also obtained new contracts in Venezuela, Mexico, Colombia and Indonesia. It continued working on a number of projects in the U.S. Consulting contracts were also carried out in the Netherlands, Austria and Switzerland.

World needs offer opportunities

In a recession-ridden world, telecommunications is still a growth industry. Forecasts indicate that world telecommunications growth will be seven per cent annually during the next five years, contrasted with less than three per cent for worldwide general economic growth.

The telecommunications needs of many countries are immense. It is estimated that by the beginning of 1986, Asia will still have only two telephones per 100 population, compared with 77 per 100 in North America.

Those needs represent opportunities for our corporation. Individually and collectively, our various business enterprises are in a unique position to manage telecommunications projects anywhere.

We look forward to increasing earnings, creating jobs for Canadians and contributing to a favorable current-account balance for Canada while playing a significant role in the development of other nations.

* Bell Canada-International Management, Research and Consulting Ltd. (BCI) is the corporation's wholly-owned international consulting subsidiary, headquartered in Ottawa, which also provides pre-sale and post-sale support to Northern Telecom.

"Working in other countries is a worthwhile effort which helps others achieve what we have long taken for granted in Canada: an efficient telecommunications system."

James E. Moran
Supervisor —
Cable maintenance
Bell Canada International

Sales in U.S. spur another impressive performance for Northern Telecom

If Northern Telecom*'s performance in 1981 was impressive, its list of accomplishments during this past year must be seen as one of the Canadian industrial success stories of 1982.

Manufacturing revenues in 1982 rose 18 per cent to $2,986.5 million, compared with $2,531 million in 1981, reflecting substantial growth in the United States.

Northern Telecom's business in Canada was increasingly affected by the poor economic conditions. Early in the year, the effects of the recession were evident in a number of product areas, including subscriber apparatus, cable and outside plant, and key telephone systems. However, as the recession deepened, virtually all sectors of the business, including central office switching, were being increasingly affected.

Revenues from Bell Canada and its telephone subsidiary and associated companies were $864.8 million in 1982, or approximately 29 per cent of the total revenues, compared with $871.8 million for 1981 (approximately 34 per cent of the total).

Increasing volume of exports

While affecting Canadian operations, and resulting in some reduction of work force by attrition, layoffs and early retirement, the impact of reduced sales in Canada would have been greater had it not been for Northern Telecom's increasing volume of exports to the United States.

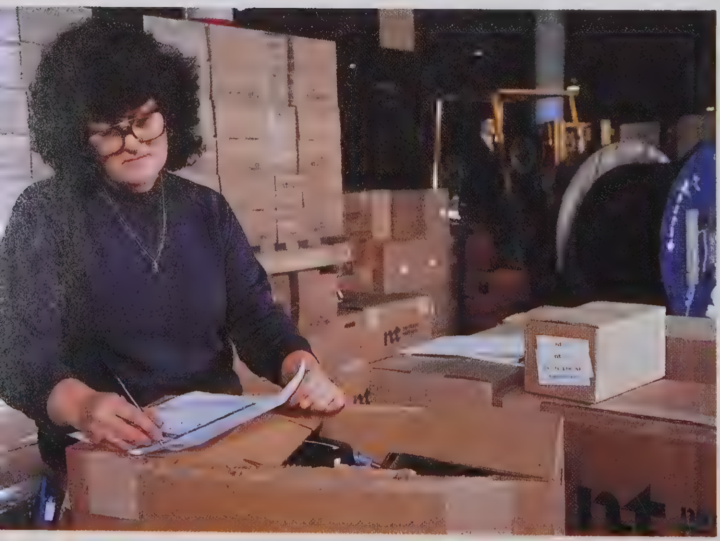
U.S. revenues were up 40.7 per cent, compared with the 1981 performance. The increase was mainly attributable to strong growth in areas such as digital central office switches, the SL-1 digital business communications system, and transmission systems.

Orders on hand at December 31, 1982 were $1,173 million, down $83 million or 6.6 per cent from the $1,256 million backlog a year earlier. This decline reflects weakened order input in the areas of Northern Telecom's businesses most affected by the recession, chiefly in Canada.

Office systems

Restructuring of the electronic office systems (EOS) organization in the U.S. continued in 1982, with maximum emphasis placed on new products and systems. Operating losses in EOS operations, including the cost of measures taken to improve future performance, increased to $98.5 million in 1982 ($15.7 million in 1981).

In September, Northern Telecom announced the formation of a new integrated office systems (IOS) organization to serve the growing demand for integrated office systems. The IOS organization comprises the former EOS group, to be called terminal systems, and the business communications systems and network systems groups, responsible for the PBX market, large corporate networks and specialized and resale carriers. IOS is expected to be a major contributor to Northern Telecom's 1983 and future growth prospects.



"People would be surprised to see all the different products which Bell Canada buys in a single year, from Northern Telecom and thousands of other Canadian suppliers."

Lise Léonard
Materiel attendant
Bell Canada

Revenues by principal products and services
$ Millions

Capital expenditures increase

Capital expenditures increased 20.5 per cent in 1982 to $252.6 million from $209.6 million in 1981. Most of those expenditures went to purchase new equipment and business systems to support Northern Telecom's ongoing productivity and cost-reduction efforts, and to build or expand plants to meet the growing demand for transmission and business products.

During the past year, Northern Telecom also announced the construction of a new $37.4 million Bell-Northern Research laboratory and a $3.5 million facility for its data network division, both to be built in the city of Nepean, near Ottawa.

Commitment to the future

As part of its commitment to the future, Northern Telecom announced, on November 8, a $1.2 billion research and development effort for a new concept called the OPEN World, expected to generate billions of dollars in revenue in the next five years.

An extension of the revolutionary digital telecommunications technology that Northern Telecom pioneered in the 1970s, the OPEN World concept addresses the growing need by organizations for improved management information systems.

As a result of this concept, Northern Telecom will provide a planning framework, enhancements to its current products, and new products to address the market. Most of the new research and development related to this project will be done in Canada.

Northern Telecom increased its net research and development investment nearly 32.9 per cent in 1982 to $241.4 million, up from $181.6 million in 1981.

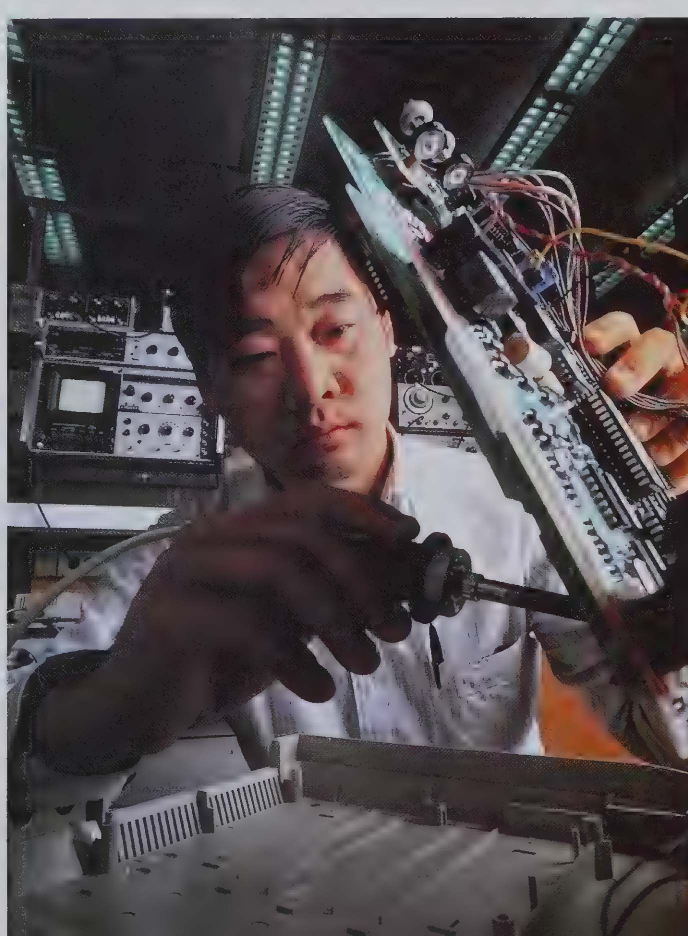
Outlook is optimistic

The uncertain timing and rate of economic recovery around the world, and particularly in Canada, are going to make 1983 another challenging year for Northern Telecom.

Nevertheless, thanks to its technological leadership and increasingly effective marketing strategies, Northern Telecom should continue achieving substantial revenue growth in the U.S. This would more than offset the expected sharp drop in revenues in Canada. As a result, modest growth in consolidated revenues is forecast for 1983.

The gain in net earnings should be substantially higher as a result of revenue growth, improved margins and a considerable reduction of the losses in EOS operations.

* Northern Telecom Limited, in which our corporation has a majority interest, is the largest manufacturer of telecommunications equipment in Canada and the second largest in North America. It employs about 35,000 people throughout the world and has 49 manufacturing plants in Canada, the U.S., England, the Republic of Ireland, Malaysia and Brazil.



"Northern Telecom's success in various markets today is largely due to its research and development ventures of yesterday. Tomorrow's success will just as well depend on today's efforts, and I'm part of it."

Gordon Wan
Technologist
Bell-Northern Research

Subsidiaries are involved in providing a broad range of products and services

The Bell group is a complex operation of more than 80 companies. The main areas of activities have been described and reviewed in the previous pages of this report.

In addition, the corporation is involved in various provincially regulated telecommunications operations through total or part ownership, and is part owner (24.6 per cent) of Telesat Canada.

It is also involved in printing, publishing and related fields, as well as in the sale of non-regulated telecommunications equipment, through Bell Canada Enterprises Inc.*

Telephone directory advertising

The current Bell Canada Enterprises is one of the most advanced and innovative international directory organizations. Its telephone directory advertising activities are conducted in Canada through Tele-Direct (Publications) Inc., in the U.S. through National Telephone Directory Corporation, and in Australia through a 49 per cent owned associate company, Edward H. O'Brien Pty. Limited.

Under contract with various telephone companies, it provides a wide variety of services ranging from the sale of advertising to the publishing, printing and distribution of white pages and Yellow Pages™ directories.

Largest commercial printer

Bell Canada Enterprises is one of Canada's largest commercial printers through its interest in Ronalds-Federated Limited. It is engaged in the production of packaging, directories, magazines, bank cheques, books and a variety of other general commercial printing. Ronalds-Federated operates 15 plants across Canada.

In 1982, Ronalds-Federated acquired the net assets and business of Alphatext, providing the company with added expertise in electronic publishing services.

Marketing organization

Bell Communications Systems Inc. (BCSI), a wholly-owned subsidiary of Bell Canada Enterprises, is a full service marketing organization engaged in the sale, engineering, installation and maintenance of a complete range of interconnect telephone systems for the business community. Its product line includes systems from well-known Canadian and international manufacturers such as Northern Telecom, Siemens, ITT, Mitel and Toshiba.

In 1982, the company acquired Commercial Telephone Systems Ltd., a British Columbia-based interconnect company.

Other activities

During the year, Bell Canada Enterprises acquired a 95.6 per cent interest in Comac Communications Limited, Canada's second largest publisher of consumer magazines. Comac's publications — Homemaker's Magazine, Madame au Foyer, Quest, City Woman and Western Living — have a combined readership of over five million from coast to coast.

Other activities of Bell Canada Enterprises include list brokerage and publishing of trade periodicals.

* Bell Canada Enterprises Inc., formerly Tele-Direct Ltd., is a wholly-owned subsidiary of the corporation. The change in name became effective on June 22, in anticipation of Bell Canada's proposed reorganization plan first announced on June 23 and currently under review by the CRTC. Under the plan, the existing Bell Canada Enterprises would become the new parent company of the Bell group.

"This massive custom-designed press is capable of printing 144 directory pages simultaneously. It's all part of our plan to remain in the forefront of technology in our industry."

William Cook
Press operator
Ronalds-Federated Limited

Consolidated Financial Statements

December 31, 1982

Bell

Management's Responsibility for Financial Statements

The accompanying consolidated financial statements of Bell Canada and its subsidiaries and all information in this Annual Report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in conformity with Canadian generally accepted accounting principles. The financial statements include some amounts that are based on best estimates and judgments. Financial information used elsewhere in the Annual Report is consistent with that in the financial statements.

Management, to meet its responsibility for the integrity and objectivity of data in the financial statements, has developed and maintains a system of internal accounting controls and supports an extensive program of internal audits. Management believes that this system of internal accounting controls provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements and that assets are properly accounted for and safeguarded. The internal accounting control process includes management's communication to employees of policies which govern ethical business conduct.

The Board of Directors carries out its responsibility for the financial statements in this Annual Report principally through its Audit Committee, consisting solely of outside directors. The internal and the Shareholders' auditors have full access to the Audit Committee, with and without management being present.

These financial statements have been examined by the Shareholders' auditors, Touche Ross & Co., Chartered Accountants, and their report is shown below.

G.L. Henthorn
Vice-President & Comptroller

Auditors' Report

The Shareholders, Bell Canada

We have examined the consolidated balance sheets of Bell Canada and subsidiaries as at December 31, 1982 and 1981 and the consolidated statements of income, retained earnings, premium on capital stock and changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at December 31, 1982 and 1981 and the results of its operations and the changes in its financial position for each of the three years in the period ended December 31, 1982 in accordance with Canadian generally accepted accounting principles applied on a consistent basis.

Touche Ross & Co.
Chartered Accountants

Montreal, Quebec
February 9, 1983

Consolidated Income Statement

For the years ended December 31		1982	1981	1980
				Millions of dollars
Telecommunications operations	Operating revenues			
	Local service	$2,136.0	$1,918.3	$1,625.8
	Long distance service	2,276.6	1,972.0	1,624.8
	Miscellaneous — net	157.5	144.8	115.6
	Total operating revenues	4,570.1	4,035.1	3,366.2
	Operating expenses	3,388.2	2,942.9	2,497.6
	Net revenues — telecommunications operations	1,181.9	1,092.2	868.6
Manufacturing operations	Revenues (note 1)	2,986.5	2,531.0	2,018.5
	Cost of revenues	2,066.6	1,803.3	1,515.3
	Selling, general, administrative and other expenses	701.6	540.3	482.4
		2,768.2	2,343.6	1,997.7
	Net revenues — manufacturing operations	218.3	187.4	20.8
Contract and other operations	Operating revenues	854.7	823.8	652.3
	Operating expenses	673.7	647.4	516.7
	Net revenues — contract and other operations	181.0	176.4	135.6
	Total net revenues	1,581.2	1,456.0	1,025.0
	Other income			
	Allowance for funds used during construction	38.5	25.1	20.2
	Equity in net income of associated companies (note 2)	23.3	19.9	21.3
	Miscellaneous — net	61.0	55.3	31.2
	Total other income	122.8	100.3	72.7
	Interest charges			
	Interest on long term debt (note 3)	415.3	396.3	319.2
	Other interest	36.3	44.6	39.5
	Total interest charges	451.6	440.9	358.7
	Income before underlisted items	1,252.4	1,115.4	739.0
	Unrealized foreign currency losses (notes 1 and 17)	14.2	11.5	11.3
	Income before income taxes, minority interest and extraordinary items	1,238.2	1,103.9	727.7
	Income taxes (notes 3 and 4)	538.7	491.1	367.2
	Income before minority interest and extraordinary items	699.5	612.8	360.5
	Minority interest	77.3	62.1	(3.2)
	Income before extraordinary items	622.2	550.7	363.7
	Extraordinary items (note 5)	3.9	8.7	(90.0)
	Net income (note 17)	626.1	559.4	273.7
	Dividends on preferred shares	56.4	35.4	38.2
	Net income applicable to common shares	$ 569.7	$ 524.0	$ 235.5
	Earnings per common share* (notes 6 and 17)			
	before extraordinary items	$3.11	$2.97	$2.00
	after extraordinary items	$3.13	$3.02	$1.45
	Assuming full dilution			
	before extraordinary items	$3.03	$2.89	$1.98
	after extraordinary items	$3.05	$2.94	$1.45
	Dividends declared per common share	$1.99	$1.84	$1.68
	*Based on weighted average common shares outstanding (thousands)	181,916	173,586	162,762

The important differences between Canadian and United States generally accepted accounting principles affecting the consolidated income statement are described and reconciled in note 17.

Consolidated Balance Sheet

	As at December 31	1982	1981
		Millions of dollars	
	Assets		
Telecommunications property — at cost (note 7)	Buildings, plant and equipment	$12,990.4	$11,870.6
	Less: Accumulated depreciation	4,024.7	3,648.9
		8,965.7	8,221.7
	Land	89.1	85.4
	Plant under construction	389.0	398.7
	Material and supplies	69.0	115.8
		9,512.8	8,821.6
Manufacturing and other property — at cost (note 7)	Buildings, plant and equipment	1,240.6	1,068.6
	Less: Accumulated depreciation	577.4	456.5
		663.2	612.1
	Land	29.7	27.1
		692.9	639.2
		10,205.7	9,460.8
Investments	Associated companies and non-consolidated subsidiaries — at equity (note 1)	567.0	487.8
	Other	10.5	6.7
		577.5	494.5
Current assets	Cash and temporary cash investments — at cost (approximates market)	278.6	198.9
	Accounts receivable — principally from customers including $5.4 (1981 — $7.5) from associated companies, and less $34.8 (1981 — $16.0) for provision for uncollectibles	1,294.4	1,274.0
	Inventories (note 8)	607.8	642.9
	Other (principally prepaid expenses)	115.9	83.1
		2,296.7	2,198.9
Other assets	Long term receivables	51.5	29.0
	Deferred charges — unrealized foreign currency losses, less amortization	173.2	131.1
	— other	74.3	101.5
	Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 1)	42.9	36.2
		341.9	297.8
	Total assets	**$13,421.8**	**$12,452.0**

On behalf of the Board of Directors:

Marcel Bélanger,
Director

John H. Moore,
Director

As at December 31		1982	1981
			Millions of dollars
	Liabilities and Shareholders' Equity		
Share capital authorized (note 9)			
Common shareholders' equity	Stated capital of common shares (note 10)	$ 1,644.1	$ 1,479.0
	Premium on capital stock (note 10)	1,033.5	1,005.2
	Retained earnings	1,577.6	1,375.1
		4,255.2	3,859.3
Convertible preferred shares (redeemable) (note 11)		422.3	258.2
Non-convertible preferred shares (redeemable) (note 11)		100.1	103.4
Minority interest in subsidiary companies	Preferred shares	37.3	27.9
	Common shares	489.6	419.3
		526.9	447.2
Long term debt (including unrealized foreign currency losses) (note 12)		4,703.3	4,539.5
Current liabilities	Accounts payable	1,067.6	898.4
	Advanced billing and payments	104.0	83.1
	Dividends payable	107.0	95.2
	Taxes accrued	163.1	186.8
	Interest accrued	106.6	105.8
	Debt due within one year (note 13)	199.3	352.5
		1,747.6	1,721.8
Deferred credits	Income taxes	1,439.9	1,331.6
	Other	226.5	191.0
		1,666.4	1,522.6
Commitments and contingent liabilities (notes 7, 12 and 15)			
	Total liabilities and shareholders' equity	**$13,421.8**	**$12,452.0**

G.L. Henthorn
Vice-President & Comptroller

Consolidated Statement of Premium on Capital Stock
(note 10)

For the years ended December 31	1982	1981	1980
			Millions of dollars
Balance at beginning of year	$1,005.2	$ 898.1	$ 807.8
Premium on common shares issued			
Under the Shareholder Dividend Reinvestment and Stock Purchase Plan	17.6	46.7	46.2
Under the Employees' Savings Plan (1966)	—	4.1	4.0
Upon conversion of preferred shares	7.7	51.6	39.2
Under the optional Stock Dividend Program	3.0	4.7	.9
	28.3	107.1	90.3
Balance at end of year	$1,033.5	$1,005.2	$ 898.1

Consolidated Statement of Retained Earnings

For the years ended December 31	1982	1981	1980
			Millions of dollars
Balance at beginning of year	$1,359.8	$1,155.7	$1,198.4
Transfer from contributed surplus	15.3	15.3	15.3
	1,375.1	1,171.0	1,213.7
Net income	626.1	559.4	273.7
Excess of stated capital over cost of preferred shares purchased for cancellation (note 11)	1.0	1.0	.3
	2,002.2	1,731.4	1,487.7
Deduct:			
Dividends			
Preferred shares	56.4	35.4	38.2
Common shares	363.4	320.6	274.9
	419.8	356.0	313.1
Expenses of issues of share capital	4.8	.3	3.6
	424.6	356.3	316.7
Balance at end of year	$1,577.6	$1,375.1	$1,171.0

Consolidated Statement of Changes in Financial Position

	For the years ended December 31	1982	1981	1980
				Millions of dollars
	Sources of cash			
Operations	Income before extraordinary items	$ 622.2	$ 550.7	$ 363.7
	Add expenses not requiring cash			
	Depreciation	976.1	804.6	732.3
	Deferred income taxes	108.3	128.1	129.6
	Other items	101.0	29.0	(23.7)
	Deduct income not providing cash			
	Allowance for funds used during construction	(38.5)	(25.1)	(20.2)
	Equity earnings in non-consolidated finance subsidiaries	(69.6)	(58.2)	(58.2)
	Extraordinary items	3.9	—	(57.4)
	Total cash from operations	1,703.4	1,429.1	1,066.1
Changes in working capital	(Increase) in accounts receivable	(20.4)	(212.7)	(1.2)
	(Increase) decrease in inventories	35.1	(68.5)	(81.9)
	(Increase) decrease in other current assets	(32.8)	25.9	(22.4)
	Increase in accounts payable	149.9	100.1	224.6
	Increase in advanced billing and payments	20.9	13.7	17.0
	Increase in dividends payable	11.8	10.1	12.5
	Increase (decrease) in taxes accrued	(23.7)	149.4	(36.0)
	Increase in interest accrued	.8	6.9	20.0
	Cash provided by changes in working capital	141.6	24.9	132.6
External financing	Proceeds from long term debt	134.7	460.1	767.9
	Issue of common shares			
	under the Dividend Reinvestment and Stock Purchase Plan	104.8	86.9	83.0
	under the optional Stock Dividend Program	11.3	8.7	1.5
	upon conversion of convertible preferred shares	67.8	87.5	71.1
	Proceeds from issue of preferred shares	232.5	—	196.8
	Proceeds from issues of shares by subsidiaries to minority shareholders	19.9	5.8	13.4
	Increase (decrease) in			
	notes payable and bank advances	(61.1)	(18.1)	15.9
	due to non-consolidated finance subsidiaries	67.7	51.0	(13.0)
	Dividend from a non-consolidated finance subsidiary	—	59.7	—
		577.6	741.6	1,136.6
Miscellaneous		81.5	78.9	20.9
	Total sources of cash	2,504.1	2,274.5	2,356.2
	Application of cash			
	Capital expenditures (net)	1,706.1	1,708.4	1,562.2
	Investments	12.7	8.6	35.7
	Repayment of long term debt	196.0	172.4	220.9
	Conversion of preferred shares	67.8	87.5	71.1
	Dividends declared by			
	Bell Canada	419.8	356.0	313.1
	Subsidiaries to minority shareholders	22.0	20.8	19.9
	Total application of cash	2,424.4	2,353.7	2,222.9
	Cash and temporary cash investments			
	Increase (decrease)	79.7	(79.2)	133.3
	At beginning of year	198.9	278.1	144.8
	At end of year	$ 278.6	$ 198.9	$ 278.1

Notes to Consolidated Financial Statements

1. Accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and all figures are in Canadian dollars. These statements conform in all material respects with International Accounting Standards. On the statements of changes in financial position, the amounts reported for 1981 and 1980 were reclassified to conform with the presentation adopted in 1982. With respect to the consolidated financial statements of Bell Canada and its subsidiary companies, the important differences between Canadian and United States generally accepted accounting principles are described and reconciled in note 17.

Bell Canada and its telephone subsidiary and associated companies are subject to regulation, including examination of accounting practices, by their respective regulatory authorities.

Consolidation
The consolidated financial statements include the accounts of all, directly or indirectly, majority-owned subsidiaries except for finance subsidiaries of Northern Telecom Limited. These non-consolidated finance subsidiaries and the investments in associated companies (50% or less, and 20% or more) are accounted for by the equity method. The finance subsidiaries are not consolidated as their business is fundamentally different from that of the consolidated group (see note 3).

The associated companies of Bell Canada and its subsidiaries at December 31, 1982 were Maritime Telegraph and Telephone Company, Limited(1), The New Brunswick Telephone Company, Limited, Telesat Canada, Sotel Inc., Edward H. O'Brien Pty. Limited and Johnson & Bloy Canada Inc.

The companies in which Bell Canada had a direct investment of more than 50% of the common shares outstanding at December 31, 1982 were:

	%
Northern Telecom Limited	55.4
Newfoundland Telephone Company Limited	62.3
Northern Telephone Limited	99.8
Télébec Ltée	100
Bell Canada Enterprises Inc. (formerly Tele-Direct Ltd.)	100
The Capital Telephone Company Limited	100
The North American Telegraph Company	100
Bell Canada — International Management, Research and Consulting Ltd.	100

The excess of cost of shares over acquired equity (goodwill) is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $1.5 million in 1982 ($2.8 — 1981, $2.8 — 1980). In addition, $89.4 million representing the unamortized excess of cost of shares over acquired equity, related to the acquisition of Sycor, Inc. and Data 100 Corporation, was fully written off in 1980 (see note 5).

Bell Canada's summarized income statement, balance sheet and statement of changes in financial position on a non-consolidated basis, are presented on pages 38 to 40.

Manufacturing revenues comprise:

	1982	1981	1980
			Millions of dollars
Revenues from:			
Bell Canada	$ 796.9	$ 794.6	$ 630.9
Telephone subsidiary and associated companies of Bell Canada	67.9	77.2	55.3
Sub-total	864.8	871.8	686.2
Revenues from others	2,121.7	1,659.2	1,332.3
Total revenues	$2,986.5	$2,531.0	$2,018.5

Telecommunications equipment purchased by Bell Canada and its telephone subsidiaries from Northern Telecom Limited and its subsidiaries is reflected in the consolidated balance sheet at cost to the purchasing companies and is included in Manufacturing revenues in the consolidated income statement. To the extent that any income related to these revenues and those from associated companies has not been offset by depreciation or other operating

(1) At December 31, 1982, Bell Canada was the registered owner of 2,172,200 or 33.8% of the outstanding common shares of Maritime Telegraph and Telephone Company, Limited; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

1. Accounting policies (continued)

Consolidation (continued)
expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed in regulated industries. All other significant intercompany transactions have been eliminated in the consolidated financial statements.

Depreciation
Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunications property is retired, the amount at which such property has been carried in Telecommunications property is charged to Accumulated depreciation.

Depreciation expense, including amortization of property held under capital leases, for the year ended December 31, 1982 was $976.1 million ($804.6 — 1981, $732.3 — 1980) and the composite rate was 7.21% (6.55% — 1981, 6.64% — 1980).

Research and development
All research and development costs incurred, which amounted to $341.0 million ($256.3 — 1981, $197.3 — 1980), were charged to income.

Translation of foreign currencies
Current assets (excluding inventories and prepaid expenses), current liabilities and long term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets (including inventories and prepaid expenses) and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at average rates prevailing during the year except for cost of inventories used, depreciation and amortization which are translated at rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the year except for unrealized foreign currency gains and losses on long term monetary assets and liabilities which are amortized over the remaining lives of the related items.
In 1982, unrealized foreign currency losses charged to income were $14.2 million ($11.5 — 1981, $11.3 — 1980), consisting of the amortization of $21.0 million ($13.0 — 1981, $11.2 — 1980) of foreign currency losses on long term debt and gains of $6.8 million ($1.5 — 1981, losses of $.1 - 1980) on the translation of foreign currency financial statements and net assets denominated in foreign currencies.

Leases
Leases are classified as capital or operating leases. Assets recorded under capital leases are amortized on a straight line method using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

Inventories
Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction
Regulatory authorities require the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including an allowance for funds used during construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Contract operations
Bell Canada provides consulting services under contract to clients, principally foreign telecommunications organizations. The accounting method generally known as percentage-of-completion is used in the determination of net income for such operations.

Income taxes
Bell Canada and its subsidiaries use the tax allocation basis of accounting for income taxes.

At December 31, 1982 foreign subsidiaries of Northern Telecom had tax loss carry-forwards for accounting purposes of $100.1 million, on which tax effects have not been recognized in the accounts and are available to reduce taxable income in future years. Of the total, $86.7 million will expire in 1995, while $13.4 million can be carried forward indefinitely.

2. Equity in net income of associated companies

This item represents the share of net income of companies accounted for by the equity method, except for the finance subsidiaries (see note 3).

The dividends received from associated companies amounted to $13.0 million ($12.2 — 1981, $12.5 — 1980).

3. Non-consolidated finance subsidiaries

Income from operations of the finance subsidiaries of Northern Telecom Limited reduces consolidated interest on long term debt; unrealized foreign currency gains or losses and income taxes are included in the respective captions of the consolidated income statement. The following is a summary of the combined financial data of these companies:

	1982	1981	1980
			Millions of dollars
Income	$ 80.1	$108.1	$ 65.1
Interest expense	(4.0)	(11.6)	(2.2)
Other expenses	(7.1)	(26.4)	(1.9)
Income from operations	69.0	70.1	61.0
Unrealized foreign currency gains	12.6	.2	6.0
Income taxes	(12.0)	(12.1)	(8.8)
Net income	$ 69.6	$ 58.2	$ 58.2

	Dec. 31, 1982	Dec. 31, 1981
Total assets	$584.4	$409.9
Total liabilities	$161.8	$ 56.9
Shareholders' equity	$422.6	$353.0

4. Income taxes

A reconciliation of the statutory income tax rate in Canada to the effective income tax rate is as follows:

	1982	1981	1980
Statutory income tax rate	49.5%	51.2%	51.1%
i) Allowance for funds used during construction, net of applicable depreciation adjustment	(1.1)	(.7)	(.8)
ii) Reduction of Canadian Federal taxes applicable to manufacturing profits	(.3)	(.2)	(.4)
iii) Equity in net income of associated companies	(.9)	(.9)	(1.5)
iv) Tax incentives on research and development expenditures	(1.5)	(2.0)	(3.0)
v) Inventory credit	(.3)	(.3)	(.5)
vi) Difference between Canadian statutory rates and those applicable to foreign subsidiaries	(2.5)	(3.4)	(4.3)
vii) Effect of losses of foreign subsidiaries not recognized	.1	1.0	9.2
viii) Other	.5	(.2)	.7
Effective income tax rate	43.5%	44.5%	50.5%

Details of the corporation's income taxes are as follows:

	1982	1981	1980
			Millions of dollars
Income before income taxes, minority interest and extraordinary items			
Canadian	$ 958.8	$ 870.7	$718.8
Foreign	279.4	233.2	8.9
Total income before income taxes, minority interest and extraordinary items	$1,238.2	$1,103.9	$727.7
Income taxes			
Canadian	$ 453.0	$ 418.6	$348.4
Foreign	85.7	72.5	18.8
Total income taxes	$ 538.7	$ 491.1	$367.2
Income taxes			
Current	$ 430.4	$ 350.3	$270.3
Deferred	108.3	128.1	129.5
Tax effect of operating loss of foreign subsidiaries	—	12.7	(32.6)
Total income taxes	$ 538.7	$ 491.1	$367.2

Deferred income taxes result principally from deductions for tax purposes, in respect of plant, being in excess of amounts currently charged to operations.

5. Extraordinary items

	1982	1981	1980
			Millions of dollars
i) Reduction of income taxes, net of minority interest of $3.1 million, arising from the utilization of prior years' tax losses of a subsidiary of Northern Telecom Limited ($0.02 per common share).	$3.9	$ —	$ —
ii) Gain (net of income taxes of $19.9 million and minority interest of $7.3 million) resulting from the sale of investment in Intersil, Inc. by Northern Telecom Limited ($0.05 per common share).	—	8.7	—
iii) Write-offs by Northern Telecom of $163.8 million relating to companies (Sycor, Inc. and Data 100) acquired in 1978 by Northern Telecom which have had unsatisfactory operating performance. These write-offs consist of a) $106.4 million of unamortized goodwill and technology investments and b) $57.4 million (net of income taxes of $3.2 million) relating to the discontinuance of certain elements of the electronic office systems business ($0.55 per common share). These write-offs are before deduction of minority interest of $73.8 million.	—	—	(90.0)
	$3.9	$8.7	$(90.0)

6. Earnings per common share

Earnings per common share are based on weighted average shares outstanding. For the computation of the earnings per share, assuming full dilution, the dividends on convertible preferred shares have been added back to income.

7. Leases

Telecommunications property and Manufacturing and other property include property recorded under capital leases as follows:

	Dec. 31, 1982	Dec. 31, 1981
		Millions of dollars
Telecommunications property		
Buildings, plant and equipment	$36.2	$37.5
Less: Accumulated depreciation	14.9	13.6
	21.3	23.9
Land	3.4	3.4
	$24.7	$27.3
Manufacturing and other property		
Buildings, plant and equipment	$28.3	$33.7
Less: Accumulated depreciation	9.2	10.4
	$19.1	$23.3

The future minimum lease payments under capital leases, and operating leases that have initial non-cancellable lease terms in excess of one year as of December 31, 1982, are as follows:

	Capital leases	Operating leases
		Millions of dollars
1983	$ 12.8	$ 90.2
1984	11.5	57.0
1985	10.9	31.1
1986	10.4	22.8
1987	8.9	14.8
Thereafter	62.6	52.5
Total future minimum lease payments	117.1	$268.4
Less: Estimated executory costs	28.3	
Net minimum lease payments	88.8	
Less: Imputed interest	40.0	
Present value of net minimum lease payments	$ 48.8	

Rental expense applicable to operating leases for the year 1982 was $153.0 million ($133.3 — 1981, $121.6 — 1980).

8. Inventories

	Dec. 31, 1982	Dec. 31, 1981
	Millions of dollars	
Raw materials	$208.8	$155.3
Work-in-process	228.1	260.4
Finished goods	170.9	227.2
	$607.8	$642.9

9. Share capital authorized

Subject to a limit of $5,000 million on the aggregate amount of the stated capital accounts of Bell Canada, the classes and any maximum number of shares that Bell Canada is authorized to issue are as follows:

(a) common shares

(b) 14 classes of preferred shares issuable in series subject to a limit of $1,713 million on the aggregate amount of the stated capital accounts in respect of such classes.

Effective April 21, 1982, Bell Canada was continued under the Canada Business Corporations Act. Prior to that date, capital stock authorized was $5,000 million, consisting of common shares of the par value of $8⅓ each and classes of preferred shares with par value subject to a limit of $1,713 million. Shares outstanding (preferred and common) on the effective date became shares without par value with a stated capital equal to the former par value. The full amount of the consideration received for shares issued since April 21, 1982 is added to the stated capital accounts.

10. Common shares

	Dec. 31, 1982		Dec. 31, 1981	
	Number of shares	Stated capital	Number of shares	Stated capital
Outstanding	187,681,334	$1,644.1 million	177,480,915	$1,479.0 million

Number of common shares issued during the last three years are as follows:

	1982	1981	1980
For cash			
Under the Shareholder Dividend Reinvestment and Stock Purchase Plan	5,507,933	4,856,378	4,450,054
Under the Employees' Savings Plan (1966)	585,410	542,367	469,886
Upon conversion of preferred shares	3,509,399	4,309,345	3,822,103
Under the optional Stock Dividend Program*	597,677	470,085	82,993
	10,200,419	10,178,175	8,825,036

*Under the optional Stock Dividend Program, which became effective with the quarterly common dividend paid on October 15, 1980, shareholders may elect to receive dividends on common shares in the form of additional common shares.

Common shares reserved at December 31, 1982 — 40,911,284:

14,400,707 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.
1,575,610 shares for issuance under the Employees' Savings Plan (1966).
21,085,722 shares for issuance upon conversion of all convertible preferred shares.
3,849,245 shares for issuance under the optional Stock Dividend Program.

Premium on capital stock represents the consideration received in excess of the then par value of common shares issued before the corporation was continued under the Canada Business Corporations Act on April 21, 1982.

11. Preferred shares

	Outstanding	Dec. 31, 1982 Number of shares	Dec. 31, 1982 Stated capital	Dec. 31, 1981 Number of shares	Dec. 31, 1981 Stated capital
			Dollars in millions		
Convertible preferred shares (redeemable)	$3.20 shares (stated capital of $47 per share)	—	$ —	67,772	$ 3.2
	$3.34 shares, class B, series B (stated capital of $52 per share)	—	—	52,853	2.8
	$4.23 shares, class C, series D (stated capital of $47 per share)	—	—	66,575	3.1
	$2.28 shares, class C, series E (stated capital of $25 per share)	—	—	348,889	8.7
	$1.96 shares, class D, series G (stated capital of $25 per share)	792,202	19.8	1,621,067	40.5
	$2.05 shares, class E, series H (stated capital of $20 per share)	8,312,381	166.3	9,993,567	199.9
	$2.70 shares, class E, series I (stated capital of $20 per share)	11,812,400	236.2	—	—
	Aggregate stated capital of outstanding convertible preferred shares		$422.3		$258.2
Non-convertible preferred shares (redeemable)	$2.25 shares, class B, series C (stated capital of $30 per share)	1,241,000	$ 37.3	1,292,000	$ 38.7
	$1.80 shares, class B, series F (stated capital of $20 per share)	3,141,300	62.8	3,233,800	64.7
	Aggregate stated capital of outstanding non-convertible preferred shares		$100.1		$103.4

During the three year period ended December 31, 1982, Bell Canada sold 11,812,500 $2.70 preferred shares in 1982 and also 10,000,000 $2.05 preferred shares in 1980.

The $3.20 preferred shares were convertible into common shares until February 1, 1982. At that date, 1,980,116 shares had been converted. Shares not converted at February 1, 1982 (19,884) were redeemed on August 1, 1982 at $47 per share.

The $3.34 preferred shares were convertible into common shares until August 1, 1983. At August 13, 1982, 1,976,688 shares had been converted. Shares not converted at that date (23,312) were redeemed on August 15, 1982 at $52.50 per share.

The $4.23 preferred shares were convertible into common shares until December 1, 1986. At August 31, 1982, 1,985,960 shares had been converted. Shares not converted at that date (14,040) were redeemed on September 1, 1982 at $50.30 per share.

The $2.28 preferred shares were convertible into common shares until July 2, 1987. At October 1, 1982, 4,939,232 shares had been converted. Shares not converted at that date (60,768) were redeemed on October 2, 1982 at $26.65 per share.

11. Preferred shares (continued)

Following is a brief summary of the material characteristics of the preferred shares:

		Redeemable at Bell Canada's option	Preferred to common conversion basis	Convertible to	Number of shares converted at Dec. 31, 1982	Purchase fund requirements (e)
Convertible(a)	$1.96 shares	For partial redemption, on May 1, 1984 at $26.50 per share to May 1, 1985 and at reducing amounts thereafter to $25 after May 1, 1990. (b)	1 for 1.213	May 1, 1990	6,207,798 including 1982 — 828,865 (1981 — 3,158,199) (1980 — 1,568,286)	Quarterly 87,500 shares commencing in 1986 (1)
	$2.05 shares	On April 15, 1986 at $21.50 per share to April 15, 1987 and at reducing amounts thereafter to $20 after April 15, 1992. (c)	1 for 1	Apr. 15, 1992	1,687,619 including 1982 — 1,681,186 (1981 — 4,521) (1980 — 1,912)	Quarterly 125,000 shares commencing in 1988 (1)
	$2.70 shares	On March 15, 1988 at $21.20 per share to March 15, 1989 and at reducing amounts thereafter to $20 after March 15, 1992. (d)	1 for 1	Mar. 15, 1992	100 All in 1982	(2)
Non-convertible(a)	$2.25 shares	On Oct. 1, 1983 at $31.50 per share to Oct. 1, 1988 and at reducing amounts thereafter to $30 after Oct. 1, 2003.	—	—	—	Annually 51,000 shares (1)
	$1.80 shares	On Oct. 2, 1986 at $21.20 per share to Oct. 2, 1991 and at reducing amounts thereafter to $20 after Oct. 2, 2006.	—	—	—	Quarterly 26,250 shares (1)

(a) The preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each issue and have one vote per share.
(b) Since less than 1,050,000 $1.96 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $25 per share at any time.
(c) In the event that not more than 1,500,000 $2.05 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $20 per share.
(d) In the event that not more than 1,771,875 $2.70 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $20 per share.
(e) Purchase funds:

Under the terms and conditions of the purchase funds,

(1) Bell Canada shall make all reasonable efforts to purchase the required number of shares for cancellation in the open market at a price not exceeding the stated capital per share plus costs of purchase. To the extent that Bell Canada is unable to purchase such shares, the undertaking is cumulative to a maximum of two years or eight quarters as the case may be, including the current period requirements.
At December 31, 1982, 459,000 $2.25 preferred shares had been purchased and cancelled, including 51,000 shares in 1982, for that year.
At December 31, 1982, 358,700 $1.80 preferred shares had been purchased and cancelled, including 92,500 shares in 1982 which were purchased for the year 1981.

(2) Bell Canada shall make all reasonable efforts to purchase for cancellation in the open market 1.25% of the $2.70 preferred shares outstanding on March 15, 1992 in each calendar quarter, commencing with the calendar quarter ending June 30, 1992, at a price not exceeding $20 per share plus costs of purchase. To the extent that Bell Canada is unable to purchase such shares, the undertaking shall be cumulative in the calendar quarters of the same calendar year after which it shall be extinguished.

Taking into account purchases to December 31, 1982, the maximum aggregate stated capital of shares that Bell Canada may be required to purchase, if available pursuant to the terms of the purchase funds, in the years 1983 to 1987 are $5.9, $3.6, $3.6, $12.4 and $12.4 million, respectively.

12. Long term debt

Bell Canada					Millions of dollars
First mortgage bonds	4 1/4-5 3/4%	6-7 7/8%	8-9 7/8%	10-16%	Total outstanding Dec. 31, 1982
Due 1983	$ 50.0	$ —	$ —	$ —	$ 50.0
1984	60.0	—	—	—	60.0
1985	—	—	2.0	—	2.0
1986	—	35.0	2.0	—	37.0
1987	—	35.0	2.0	—	37.0
1988-1997	178.0	292.5	476.1	130.0	1,076.6
1998-2004	—	99.0	201.0	—	300.0
	288.0	461.5	683.1	130.0	1,562.6
Debentures and notes					
Due 1985	—	—	—	200.0	200.0
1986	—	—	60.0	60.0	120.0
1987	—	102.7	99.9	—	202.6
1988-1993	—	63.9	—	272.0	335.9
2002-2010	—	—	750.0	375.0	1,125.0
	—	166.6	909.9	907.0	1,983.5
Other					
Mortgage (due in instalments to 1995 — 9% interest)					31.6
Obligations under capital leases					25.3
Exchange premium less discount, at time of issue, on debt payable in U.S. funds					112.4
Unrealized foreign currency losses*					221.4
Sub-total — Bell Canada					3,936.8
Subsidiaries (including $374.6 million due to non-consolidated finance subsidiaries and $23.5 million of obligations under capital leases)					854.0
Unrealized foreign currency losses*					10.2
Sub-total — consolidated					4,801.0
Less: due within one year (including $8.9 million due to non-consolidated finance subsidiaries)					97.7
Total — consolidated					$4,703.3

* Arising from the translation of foreign currency denominated debt at rate prevailing on December 31, 1982.

The first mortgage bonds of Bell Canada are secured by a first mortgage and a floating charge.

First mortgage bonds include $50 million U.S. maturing in 1983 and $518 million U.S. maturing from 1988 to 2004. Debentures and notes include $910 million U.S. maturing from 1986 to 2010 and 250 million Swiss Francs maturing from 1987 to 1993.

At December 31, 1982, the amounts of long term debt payable by Bell Canada and subsidiary companies in the years 1983 to 1987 are $97.7, $163.7, $259.7, $207.3 and $272.3 million, respectively.

At December 31, 1982, the debt of non-consolidated finance subsidiaries of Northern Telecom Limited (NTL), due to third parties, was $131.6 million, of which $80 million U.S. of 7% convertible debentures are unconditionally guaranteed on a subordinated basis by NTL. The debentures are convertible into common shares of NTL at $73 U.S. per share. Prepayment is permitted if the market price of NTL common shares averages at least 120% of the conversion price for a specified period.

13. Debt due within one year

	Dec. 31, 1982	Dec. 31, 1981
		Millions of dollars
Long term debt	$ 97.7	$189.8
Notes payable	78.0	133.2
Bank advances	23.6	29.5
	$199.3	$352.5

14. Unused bank lines of credit

At December 31, 1982, unused operating bank lines of credit, generally available at the prime bank rate of interest, amounted to approximately $785 million.

15. Guarantees

Performance guarantees have been furnished, in respect of contract operations, equivalent to approximately $71.4 million at December 31, 1982.

16. Quarterly financial data

Summarized consolidated quarterly financial data (in millions of dollars except per share amounts) are as follows:

				Three months ended
1982	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**
Telecommunications operations				
Operating revenues	$1,113.4	$1,112.0	$1,152.1	$1,192.6
Net revenues — telecommunications operations	294.0	270.9	294.5	322.5
Manufacturing operations				
Revenues	706.6	778.5	727.9	773.5
Gross profit	211.9	225.1	227.0	255.9
Net revenues — manufacturing operations	60.4	54.6	46.9	56.4
Contract and other operations				
Operating revenues	221.6	211.4	223.3	198.4
Net revenues — contract and other operations	48.0	40.4	50.9	41.7
Income before extraordinary item	159.5	143.6	156.0	163.1
Net income	159.5	143.6	157.2	165.8
Net income applicable to common shares	149.8	127.6	141.5	150.8
Earnings per common share*				
before extraordinary item	$.84	$.71	$.76	$.80
after extraordinary item	$.84	$.71	$.77	$.81
Assuming full dilution				
before extraordinary item	$.81	$.69	$.75	$.78
after extraordinary item	$.81	$.69	$.75	$.79
* Based on weighted average common shares outstanding (thousands)	178,697	180,348	182,985	185,548

				Three months ended
1981	**Mar. 31**	**June 30**	**Sept. 30**	**Dec. 31**
Telecommunications operations				
Operating revenues	$941.3	$975.3	$1,002.7	$1,115.8
Net revenues — telecommunications operations	242.1	245.5	258.2	346.4
Manufacturing operations				
Revenues	574.7	631.4	627.5	697.4
Gross profit	159.1	176.8	173.7	218.1
Net revenues — manufacturing operations	41.4	49.0	40.9	56.1
Contract and other operations				
Operating revenues	173.0	186.6	202.8	261.4
Net revenues — contract and other operations	37.5	40.5	43.9	54.5
Income before extraordinary item	117.8	127.8	122.7	182.4
Net income	126.5	127.8	122.7	182.4
Net income applicable to common shares	117.0	119.1	114.0	173.9
Earnings per common share*				
before extraordinary item	$.64	$.69	$.65	$.99
after extraordinary item	$.69	$.69	$.65	$.99
Assuming full dilution				
before extraordinary item	$.62	$.67	$.64	$.95
after extraordinary item	$.67	$.67	$.64	$.95
* Based on weighted average common shares outstanding (thousands)	170,061	172,968	174,802	176,431

17. Differences between Canadian and United States generally accepted accounting principles

a) Translation of foreign currencies

If the foreign currency translation had been treated in accordance with the United States Financial Accounting Standards Board's Statement No. 8: Accounting for the Translation of Foreign Currency Transactions and Foreign Currency Financial Statements, consolidated income before extraordinary items and earnings per common share would have increased (decreased) as follows:

	Increase (decrease) in consolidated income before extraordinary items	
	Total in millions	Per share amounts
Three months ended		
March 31, 1982	$(45.8)	$(.26)
June 30, 1982	(65.9)	(.37)
September 30, 1982	78.0	.43
December 31, 1982	3.0	.02
March 31, 1981	$ 11.5	$ .07
June 30, 1981	(12.7)	(.07)
September 30, 1981	(5.4)	(.03)
December 31, 1981	27.5	.16
Year ended		
December 31, 1982	$(30.7)	$(.17)
December 31, 1981	20.9	.12
December 31, 1980	(20.7)	(.13)

b) Extraordinary items

The extraordinary items, reported in 1981 and 1980, of $8.7 million and $90.0 million, respectively, as described in note 5, do not meet the criteria of extraordinary items under United States practice; consequently those amounts would be considered in determining income before extraordinary items for the years 1981 and 1980. Net income is identical under both Canadian and United States reporting practices.

If items (a) and (b) above had been reported in accordance with United States generally accepted accounting principles, the results of operations for each of the three years in the period ended December 31, 1982 would have been as follows:

	1982	**1981**	**1980**
Income before extraordinary items (millions)	$591.5	$580.3	$253.0
Earnings per common share	$2.94	$3.14	$1.32

18. Pensions

Bell Canada and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions based on length of service and rates of pay for substantially all their employees.

The policy is to fund pension costs through contributions based on various actuarial cost methods as permitted by pension regulatory bodies. Such costs are funded as accrued and reflect actuarial assumptions regarding salary projection and future service benefits. The provision for pension costs was $270.6 million for the year ended December 31, 1982 ($236.5 — 1981, $218.1 — 1980).

In compliance with the United States Financial Accounting Standards Board's Statement No. 36, the disclosure of the following information is required to exclude actuarial assumptions regarding salary projection and future service benefits. A comparison of accumulated plan benefits and plan net assets is provided as follows:

	Dec. 31, 1981	**Dec. 31, 1980**
	Millions of dollars	
Actuarial present value of accumulated plan benefits		
Vested	$1,889.1	$1,623.2
Non-vested	299.1	252.8
	$2,188.2	$1,876.0
Net assets available for benefits — at market value	$2,357.5	$2,111.6

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7% for both 1981 and 1980.

19. Industry segments information

Bell Canada and its subsidiary and associated companies operate principally in two business segments:

1) Telecommunications operations, which includes the provision of voice, visual, data, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services; and
2) Telecommunications equipment manufacturing, which involves the design, development, manufacture and marketing of central office switching equipment, subscriber apparatus, business communications and network systems, transmission equipment and wire, cable and outside plant products.

In addition ''Other'' includes the following business activities: contract operations, electronic office systems, directory and printing operations.

The following table sets forth revenues, net revenues and supplementary data for each of the corporation's business segments for the years ended December 31, 1982, 1981 and 1980.

	1982	1981	1980
			Millions of dollars
By segments			
Revenues			
Telecommunications operations	$4,497.3(a)	$3,971.4(a)	$3,310.9(a)
Telecommunications equipment manufacturing	2,688.6(b)	2,248.5(b)	1,751.2(b)
Other	1,225.4	1,170.0	974.9
Consolidated	$8,411.3	$7,389.9	$6,037.0
Intersegment revenues			
Telecommunications operations	$ 72.8	$ 63.7	$ 55.3
Telecommunications equipment manufacturing	.9	3.4	2.1
Other	286.1	194.7	135.0
Eliminations	(359.8)	(261.8)	(192.4)
	$ —	$ —	$ —
Total revenues			
Telecommunications operations	$4,570.1	$4,035.1	$3,366.2
Telecommunications equipment manufacturing	2,689.5	2,251.9	1,753.3
Other	1,511.5	1,364.7	1,109.9
Eliminations	(359.8)	(261.8)	(192.4)
Consolidated	$8,411.3	$7,389.9	$6,037.0
Total net revenues			
Telecommunications operations	$1,174.7	$1,091.0	$ 867.1
Telecommunications equipment manufacturing	437.4	301.8	187.4
Other	95.4(a)	163.8(a)	53.0(a)
	1,707.5	1,556.6	1,107.5
General corporate expenses	(126.3)	(100.6)	(82.5)
Consolidated	1,581.2	1,456.0	1,025.0
Equity in net income of associated companies			
Telecommunications operations	21.9	17.3	16.4
Other	1.4	2.6	4.9
	23.3	19.9	21.3
Other income	99.5	80.4	51.4
Interest charges	(451.6)	(440.9)	(358.7)
Unrealized foreign currency losses	(14.2)	(11.5)	(11.3)
Income before income taxes, minority interest and extraordinary items	$1,238.2	$1,103.9	$ 727.7

19. Industry segments information (continued)

	1982	1981	1980
			Millions of dollars
By segments			
Identifiable assets			
Telecommunications operations	$10,029.2	$ 9,350.8	$ 8,434.7
Telecommunications equipment manufacturing	1,536.4	1,383.6	1,145.8
Other	954.8	1,017.1	989.6
Eliminations	(226.1)	(205.9)	(150.1)
Consolidated	12,294.3	11,545.6	10,420.0
Investments in associated companies and non-consolidated subsidiaries			
Telecommunications operations	140.1	130.4	124.1
Other	426.9	357.4	371.3
Consolidated	567.0	487.8	495.4
General corporate assets	560.5(c)	418.6(c)	533.6(c)
Total assets as at December 31	$13,421.8	$12,452.0	$11,449.0
Depreciation			
Telecommunications operations	$ 798.7	$ 680.3	$ 616.9
Telecommunications equipment manufacturing	69.6	49.3	41.9
Other	98.5	69.2	70.4
	966.8	798.8	729.2
Depreciation — general corporate assets	9.3	5.8	3.1
Total depreciation	$ 976.1	$ 804.6	$ 732.3
Gross capital expenditures			
Telecommunications operations	$ 1,494.9	$ 1,480.6	$ 1,363.9
Telecommunications equipment manufacturing	145.3	91.8	127.8
Other	95.4	137.7	102.8
	1,735.6	1,710.1	1,594.5
Capital expenditures — general corporate assets	24.0	3.8	3.7
Total capital expenditures	$ 1,759.6	$ 1,713.9	$ 1,598.2

The following table sets forth information by geographic area for the years ended December 31, 1982, 1981 and 1980.

	1982	1981	1980
			Millions of dollars
By geographic area(d)			
Revenues			
Canada	$ 6,221.2	$ 5,607.6	$ 4,575.7
U.S.A.	1,512.4	1,080.6	838.0
Other	677.7	701.7	623.3
Consolidated	$ 8,411.3	$ 7,389.9	$ 6,037.0
Transfers between area			
Canada	$ 249.9	$ 160.2	$ 87.5
U.S.A.	93.8	85.3	67.4
Other	17.1	15.5	2.8
Eliminations	(360.8)	(261.0)	(157.7)
	$ —	$ —	$ —
Total revenues			
Canada	$ 6,471.1	$ 5,767.8	$ 4,663.2
U.S.A.	1,606.2	1,165.9	905.4
Other	694.8	717.2	626.1
Eliminations	(360.8)	(261.0)	(157.7)
Consolidated	$ 8,411.3	$ 7,389.9	$ 6,037.0

19. Industry segments information (continued)

	1982	1981	1980
			Millions of dollars
By geographic area(d)			
Total net revenues (losses) before research and development expenses			
Canada	$ 1,684.2	$ 1,535.7	$ 1,206.7
U.S.A.	211.8	128.4	(23.2)
Other	152.9	149.8	119.5
Eliminations	(.4)	(1.0)	1.8
	2,048.5	1,812.9	1,304.8
Research and development expenses	(341.0)	(256.3)	(197.3)
General corporate expenses	(126.3)	(100.6)	(82.5)
Consolidated	1,581.2	1,456.0	1,025.0
Equity in net income of associated companies			
Canada	21.8	17.3	16.4
U.S.A.	.5	1.3	3.5
Other	1.0	1.3	1.4
	23.3	19.9	21.3
Other income	99.5	80.4	51.4
Interest charges	(451.6)	(440.9)	(358.7)
Unrealized foreign currency losses	(14.2)	(11.5)	(11.3)
Income before income taxes, minority interest and extraordinary items	$ 1,238.2	$ 1,103.9	$ 727.7

Identifiable assets			
Canada	$11,186.9	$10,352.0	$ 9,260.2
U.S.A.	1,122.5	877.3	884.5
Other	565.1	539.5	414.0
Eliminations	(580.2)	(223.2)	(138.7)
Consolidated	12,294.3	11,545.6	10,420.0
Investments in associated companies and non-consolidated subsidiaries			
Canada	140.1	130.5	124.1
U.S.A.	67.7	60.6	65.7
Other	359.2	296.7	305.6
Consolidated	567.0	487.8	495.4
General corporate assets	560.5(c)	418.6(c)	533.6(c)
Total assets as at December 31	$13,421.8	$12,452.0	$11,449.0

a) Telecommunications operations segment revenues include $34.6 million ($29.8 — 1981, $21.0 — 1980) consisting principally of contract service agreement revenues and contribution to overhead, which are also included as operating expenses in Other net revenues. These items are not eliminated on consolidation.
b) Telecommunications equipment manufacturing includes revenues of $864.8 million ($871.8 — 1981, $686.2 — 1980) from Bell Canada, its telephone subsidiary and associated companies. These revenues are not eliminated on consolidation. Telecommunications equipment manufacturing revenues of Northern Telecom from Bell Canada are at sale prices and terms as low as those offered to Northern Telecom's most favored customers for like materials and services under comparable conditions.
c) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.
d) The point of origin (the location of the selling organization) of revenues and the location of the assets determine the geographic area.

20. Proposed reorganization of the Bell group of companies

At special meetings held on August 18, 1982, Bell Canada common and preferred shareholders authorized an arrangement (the ''Arrangement'') pursuant to the provisions of the Canada Business Corporations Act under which the holders of common and preferred shares of Bell Canada would exchange their shares with Bell Canada Enterprises Inc. (''BCE''), on a one-for-one basis, for common and preferred shares of BCE, presently a wholly-owned subsidiary of Bell Canada. Under the Arrangement, which forms part of an overall proposed reorganization of the Bell group of companies, Bell Canada would become a wholly-owned subsidiary of BCE which would become the new publicly held parent company of the Bell group of companies.

At the hearing before the Superior Court of the Province of Quebec, the Attorney General of Canada filed an intervention requesting that Bell Canada's application for the approval of the Arrangement be dismissed on the grounds that Bell Canada did not have the power to proceed with the Arrangement without the prior approval of the Canadian Radio-television and Telecommunications Commission (the ''CRTC''). On September 24, 1982, the Superior Court approved the Arrangement. However, on October 25, 1982, the Attorney General of Canada appealed the decision of the Superior Court, citing the same grounds as in the Superior Court. No decision has been rendered to date on this appeal, which has the effect of suspending the execution of the judgment of the Superior Court, thereby preventing Bell Canada from filing, until the conclusion of the appeal, the Articles of Amendment necessary to make the Arrangement effective. Hearings before the Court of Appeal are expected to commence on February 22, 1983.

The Government of Canada also issued an Order in Council dated October 22, 1982 referring to the CRTC for examination certain questions relating to the proposed reorganization and requiring the CRTC to report back its findings on or before March 31, 1983.

Summarized Income Statement Non-Consolidated

(note 1)

	For the years ended December 31	1982	1981	1980
				Millions of dollars
Telecommunications operations	Operating revenues			
	Local service	$2,049.7	$1,844.1	$1,562.5
	Long distance service	2,158.0	1,861.1	1,529.0
	Miscellaneous — net	151.6	139.9	111.6
	Total operating revenues	4,359.3	3,845.1	3,203.1
	Operating expenses	3,254.2	2,818.1	2,390.3
	Net revenues — telecommunications operations	1,105.1	1,027.0	812.8
	Other income			
	Dividends — subsidiary companies	36.6	31.8	29.7
	— associated companies	11.3	10.0	9.1
	Allowance for funds used during construction	37.0	23.8	18.5
	Miscellaneous — net	27.7	36.6	18.5
	Total other income	112.6	102.2	75.8
	Income before underlisted items	1,217.7	1,129.2	888.6
	Interest charges	368.5	335.2	287.0
	Unrealized foreign currency losses	16.8	13.1	10.0
	Income before income taxes	832.4	780.9	591.6
	Income taxes	364.1	357.8	272.5
	Income — telecommunications operations	468.3	423.1	319.1
Contract operations	Operating revenues	469.1	493.2	453.6
	Operating expenses	357.6	375.9	362.1
	Net revenues — contract operations	111.5	117.3	91.5
	Miscellaneous — net	2.2	(6.0)	3.6
	Income before income taxes	113.7	111.3	95.1
	Income taxes	60.6	58.4	48.3
	Income — contract operations	53.1	52.9	46.8
	Net income	521.4	476.0	365.9
	Dividends on preferred shares	56.4	35.4	38.2
	Net income applicable to common shares	$ 465.0	$ 440.6	$ 327.7
	Earnings per common share*	$2.56	$2.54	$2.01
	Assuming full dilution	$2.52	$2.49	$1.99
	Dividends declared per common share	$1.99	$1.84	$1.68
	* Based on weighted average common shares outstanding (thousands)	181,916	173,586	162,762

Summarized Balance Sheet Non-Consolidated

(note 1)

	As at December 31	1982	1981
		Millions of dollars	
	Assets		
Telecommunications property — at cost	Buildings, plant and equipment	$ 12,344.2	$ 11,296.6
	Less: Accumulated depreciation	3,828.0	3,478.6
		8,516.2	7,818.0
	Land, and plant under construction	464.8	460.4
	Material and supplies	63.0	108.8
		9,044.0	8,387.2
Investments — at cost	Subsidiary companies	389.2	352.9
	Associated companies	108.0	108.0
		497.2	460.9
Current assets		850.2	941.5
Deferred charges	Unrealized foreign currency losses, less amortization	166.2	129.4
	Other	62.4	85.7
		228.6	215.1
	Total assets	**$10,620.0**	**$10,004.7**
	Liabilities and Shareholders' Equity		
Common shareholders' equity	Stated capital of common shares	$ 1,644.1	$ 1,479.0
	Premium on capital stock	1,033.5	1,005.2
	Retained earnings	1,129.9	1,031.6
		3,807.5	3,515.8
Convertible preferred shares (redeemable)		422.3	258.2
Non-convertible preferred shares (redeemable)		100.1	103.4
Long term debt	Includes unrealized foreign currency losses of $208.5 ($167.9 - 1981)	3,870.8	3,783.2
Current liabilities		1,039.3	1,018.4
Deferred credits	Income taxes	1,298.2	1,193.5
	Other	81.8	132.2
		1,380.0	1,325.7
	Total liabilities and shareholders' equity	**$10,620.0**	**$10,004.7**

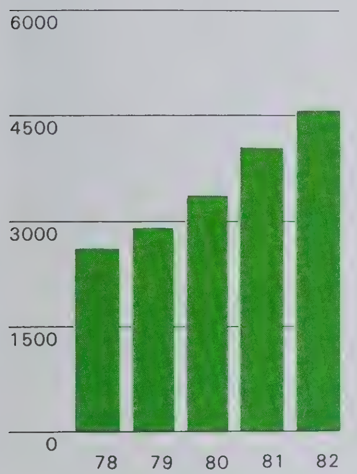
Summarized Statement of Changes in Financial Position Non-Consolidated

(note 1)

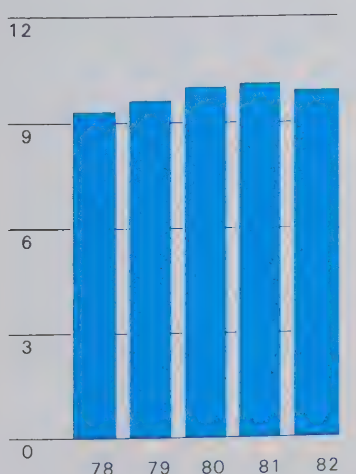
	For the years ended December 31	1982	1981	1980
				Millions of dollars
	Sources of cash			
Operations	Net income	$ 521.4	$ 476.0	$ 365.9
	Add expenses not requiring cash			
	Depreciation	760.9	646.3	586.6
	Deferred income taxes	104.7	132.4	125.5
	Other items	15.6	(29.5)	(20.6)
	Deduct income not providing cash			
	Allowance for funds used during construction	(37.0)	(23.8)	(18.5)
	Total cash from operations	1,365.6	1,201.4	1,038.9
Changes in working capital		92.2	135.6	76.2
External financing	Proceeds from long term debt	98.3	346.9	487.4
	Issue of common shares			
	under the Dividend Reinvestment and Stock Purchase Plan	104.8	86.9	83.0
	under the optional Stock Dividend Program	11.3	8.7	1.5
	upon conversion of convertible preferred shares	67.8	87.5	71.1
	Proceeds from issue of preferred shares	232.5	—	196.8
	Increase (decrease) in notes payable	(6.4)	24.3	(22.9)
		508.3	554.3	816.9
	Total sources of cash	1,966.1	1,891.3	1,932.0
	Application of cash			
	Capital expenditures (net)	1,366.8	1,397.4	1,263.9
	Investments	36.2	21.9	23.8
	Repayment of long term debt	94.5	56.7	119.6
	Conversion of preferred shares	67.8	87.5	71.1
	Miscellaneous	35.9	61.8	15.7
	Dividends declared	419.8	356.0	313.1
	Total application of cash	2,021.0	1,981.3	1,807.2
	Cash and temporary cash investments			
	Increase (decrease)	(54.9)	(90.0)	124.8
	At beginning of year	171.8	261.8	137.0
	At end of year	$ 116.9	$ 171.8	$ 261.8

Management's Discussion and Analysis of Results of Operations and Financial Condition

Telecommunications operations — operating revenues
$ Millions (Consolidated)



Telephones in service
Millions (Consolidated)



Results of operations

Net income

Consolidated income before extraordinary items in 1982 was $622.2 million ($3.11 per common share) compared with $550.7 million ($2.97 per share) and $363.7 million ($2.00 per share) in 1981 and 1980, respectively. The increases were due principally to higher earnings in the telecommunications segment and also due to the improved performance of Northern Telecom Limited (Northern Telecom).

The higher earnings in the telecommunications segment were realized in the face of low growth in demand for telecommunications services and were the result of the combined effect of rate awards, which became effective in October 1981 and September 1982, and the implementation of cost-cutting measures both of which partially offset the impact of inflation on operating expenses.

Consolidated net income was $626.1 million ($3.13 per share) in 1982 compared to $559.4 million ($3.02 per share) in 1981 and $273.7 million ($1.45 per share) in 1980.

Northern Telecom, 55.4 per cent owned by Bell Canada at December 31, 1982, is Bell Canada's largest subsidiary. Northern Telecom's contribution to consolidated income was $83.5 million ($0.46 per share) and $66.3 million ($0.38 per share) in 1982 and 1981, respectively. In 1980, Northern Telecom had incurred a loss which reduced Bell Canada's consolidated income before extraordinary items by $11.9 million ($0.07 per share).

The discussion of the results of operations, which follows, separately addresses Telecommunications operations, Manufacturing operations (carried out by Northern Telecom) and Contract and other operations, in parallel with the format of the consolidated income statement which appears on page 19.

Telecommunications operations

Operating revenues increased by $535.0 million (13.3 per cent) during 1982, by $668.9 million (19.9 per cent) in 1981 and by $404.6 million (13.7 per cent) in 1980. In 1982, approximately $388.0 million of the increase represented the full year effect of the October 1981 rate award, as well as the 6 per cent rate increase, effective September 1, 1982, granted by the government of Canada. In addition, a further increase of 5 per cent, effective September 1, 1983, was also granted. The rate increases granted are in lieu of the higher rate increases requested by Bell Canada of the Canadian Radio-television and Telecommunications Commission (CRTC) in June 1982 and form part of the federal government's program to control increases in prices subject to federal jurisdiction. Bell Canada's labour expenses under its union contracts are not affected by the program.

The continuing deterioration in economic conditions in Canada had an adverse impact on demand for local service. During 1982, local revenues increased by $217.7 million, or 11.3 per cent, compared with $292.5 million, or 18.0 per cent, in 1981. Excluding the impact of the rate increases described above, local revenues during 1982 increased by 1.0 per cent over 1981, and by 5.3 per cent during 1981 over 1980.

During 1981 and 1982, the growth in local service revenues was also affected by the CRTC's interim decision, which was confirmed in the fourth quarter 1982, permitting subscribers to connect their own terminal equipment to Bell Canada's facilities. At December 31, 1982, the number of Bell Canada telephones in service decreased by 1.7 per cent to 9.9 million, from 10.1 million in 1981, compared with an increase of 0.7 per cent for the year 1981 over 1980. This decline in 1982 was most significant in the number of main business telephones in service. The number of extensions in service decreased by 5.8 per cent to 3.4 million at year-end 1982, from 3.6 million in 1981, compared with a decrease of 2.5 per cent for the year 1981 over 1980.

Notwithstanding the decline in total telephones in service, the number of lines in service at December 31, 1982 increased to 6.7 million from 6.6 million at year-end 1981 and 6.5 million at year-end 1980.

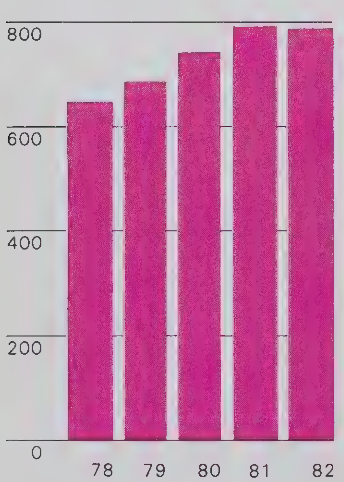
The depressed Canadian economy also adversely affected the demand for long distance service. During 1982, the number of long distance messages declined to 791.1 million, 0.2 per cent less than 1981. In 1981, long distance messages had increased 7.0 per cent over 1980.

1982 revenues from long distance increased by $304.6 million (15.4 per cent) compared with $347.2 million (21.4 per cent) in 1981. Excluding the impact of rate increases, long distance revenues during 1982 increased 5.7 per cent over 1981 and 12.8 per cent during 1981 over 1980.

Telecommunications operating expenses in 1982 increased by $445.3 million (15.1 per cent) compared with $445.3 million (17.8 per cent) and $347.5 million (16.2 per cent) in 1981 and 1980, respectively.

The 1982 reduction in the rate of increase of operating expenses, as compared with

Long distance messages
Millions (Consolidated)



the previous year, reflects the continued implementation of cost-cutting measures, including a freeze on hiring of new employees, implemented during 1982 to reduce operating expenses. However, certain non-controllable costs for goods and services and commitments of Bell Canada with its unionized employees, providing them with annual increases of 10 per cent or more in 1982, did not permit Bell Canada to restrain the rate of increase of operating expenses at a level below the rate of increase in telecommunications revenues.

In the fourth quarter of 1982, Bell Canada reached an agreement with its unionized employees providing that employees will share a reduced work load, on a rotational basis, for part of 1983.

The depressed state of the Canadian economy and the lower rate increases granted by the federal government have an adverse effect on the corporation's financial results. Bell Canada intends to continue to maintain a sound financial position in order to retain the confidence of its investors and the financial community and to continue to attract at a reasonable cost the necessary amount of capital required to meet its service obligations to customers.

Manufacturing operations

Revenues for the year 1982, led by demand for transmission equipment, digital central offices and private branch exchange (PBX) switching systems, achieved an 18.0 per cent increase to \$2,986.5 million, compared with \$2,531.0 million in 1981 and \$2,018.5 million in 1980. Increases in revenues during these three years were chiefly attributable to volume growth rather than price increases.

Telecommunications equipment revenues in 1982 were \$2,688.6 million, up 19.6 per cent from \$2,248.5 million in 1981; revenues in 1980 were \$1,751.2 million. Central office switching was up 16.5 per cent in 1982 to \$904.3 million, compared with \$776.0 million in 1981; switching accounted for \$505.1 million in 1980.

This growth was attributable to continuing strong demand for Digital Multiplex System switches (DMS), particularly the DMS-100 Family of large switches. DMS revenues in 1982 were \$646.0 million, up 24.0 per cent from \$521.0 million in 1981, compared with \$269.0 million in 1980. Subscriber apparatus, business communications and network systems revenues were up 29.6 per cent in 1982 to \$958.7 million compared with \$739.9 million in 1981. In 1981, this product line increased 19.6 per cent from the 1980 level of \$618.6 million. The principal factor for this growth continued to be demand for SL Family, network systems and subscriber apparatus in the United States. Transmission equipment revenues increased in all markets in 1982, while wire, cable and outside plant revenues decreased.

Electronic office systems (EOS) revenues were up 4.9 per cent in 1982 to \$287.7 million, compared with \$274.2 million in 1981; in 1980, EOS revenues were \$259.0 million. In 1982, as in the previous years, there was a continuing decline in revenues generated by older equipment leased to customers. This was offset by revenues from new products and systems introduced during 1981 and 1982. In the latter part of 1982, the EOS business was reorganized and made a part of the new Terminal Systems group. Terminal Systems has been combined with business communications systems, network systems, spectron test equipment and advanced telephone products to form the new Integrated Office Systems (IOS) organization as a part of the telecommunications equipment manufacturing segment.

The gross profit margin in 1982 rose to 30.8 per cent on gross profit of \$919.9 million. This compared with a 1981 gross margin of 28.8 per cent on gross profit of \$727.7 million, and a margin in 1980 of 24.9 per cent on gross profit of \$503.2 million. The improving gross margin in 1981 and 1982 reflects, in particular, the increasing profitability of such key products as the DMS and SL switching systems and transmission equipment.

The impact of inflation on production costs was offset by the success of Northern Telecom's on-going cost reduction and productivity programs, volume increases and some impact from higher prices.

The improvement in gross margins attributable to the telecommunications product lines was somewhat offset by a considerably lower gross margin in the EOS business. EOS results were substantially affected by a series of actions taken during the year to restructure the business to improve its future productivity and performance, and related to its merger into the new IOS organization. These actions included expenses or provisions for the closing of four manufacturing plants, reduction of employment by 650, the full depreciation of the leasebase related to all older equipment, and the write-down of inventories.

In 1980, gross profit was adversely affected by the high start-up costs for DMS and by provisions and expenses incurred by the EOS business.

In 1982, Northern Telecom increased its net investment in research and development (R&D) by 32.9 per cent to \$241.4 million (8.1 per cent of revenues) compared with

$181.6 million (7.2 per cent of revenues) invested in 1981.

In 1980, net R&D expense was $140.9 million, or 7.0 per cent of revenues. The increased rate of R&D investment in 1982 resulted from a decision taken by Northern Telecom to raise the percentage of revenues devoted annually to the evolution of established products and development of new systems.

Net revenues from manufacturing operations were $218.3 million, up 16.5 per cent from $187.4 million in 1981, compared with operating profits in 1980 of $20.8 million. Operating margins in the three years were 7.3 per cent, 7.4 per cent and 1.0 per cent, respectively.

Contract and other operations

Operating revenues and expenses increased in 1982, mainly due to higher activities related to telephone directory operations. Operating revenues and expenses in 1982 for contract operations alone were substantially the same as those in 1981. Although the five-year contract with the Government of the Kingdom of Saudi Arabia expired on December 13, 1982, services continue to be provided on location to the Kingdom in light of the current negotiations for a five-year contract, retroactive to December 14, 1982.

Extraordinary items

In 1982, an extraordinary gain of $3.9 million was recorded as a result of a reduction of income taxes by the use of prior years' tax losses of a subsidiary of Northern Telecom. In 1981, an extraordinary gain of $8.7 million was realized from the sale by Northern Telecom of its shares in Intersil, Inc. In 1980, Bell Canada recorded an extraordinary loss of $90 million as a result of Northern Telecom's write-offs, principally related to its EOS business. The extraordinary gain in 1981 and extraordinary loss in 1980 would not be reported as extraordinary items under United States generally accepted accounting principles.

Capital resources

Financing activities of Bell Canada and Northern Telecom have been carried on independently and are discussed separately hereunder.

Bell Canada

The principal requirement for additional funds in Bell Canada is to finance capital expenditures. The continuous introduction of advanced technology enables Bell Canada to partially offset the effects of inflation on operating expenses and on construction expenditures. Removing the impact of price increases, the level of construction expenditures has remained relatively unchanged from 1974 to 1980 and actually went down in the past two years. Gross capital expenditures totalled $1,417 million in 1982, $200 million below the original budget, compared with $1,400 million in 1981. Based on Bell Canada's current budget, it is estimated that its capital expenditure program in 1983 will decline approximately 16.0 per cent, to $1,185 million, from the 1982 capital expenditure level.

In order to finance its capital expenditures, Bell Canada obtains funds from external sources to supplement internally generated funds. For 1983 approximately three-quarters of its construction program is expected to be provided by internally generated funds. The remainder will be financed by the offering of debt securities, with additional equity capital coming from the existing shareholders' plans.

During 1982 and 1981, external financing in Canadian and international capital markets amounted to $462 million and $456 million, respectively. Bell Canada raised common equity, principally by means of the Shareholder Dividend Reinvestment and Stock Purchase Plan, in amounts of $126 million in 1982 and $104 million in 1981, and issued $236 million of convertible preferred shares in 1982. Debt financing in 1982 consisted of $100 million of 7-year debentures, sold in Europe. Debt financing in 1981 consisted of US $150 million of 10-year debentures issued in the United States and two medium-term issues in Switzerland amounting to SFr 250 million (equivalent to Can $166.5 million).

Northern Telecom

Capital expenditures amounted to $252.6 million in 1982 and $209.6 million in 1981. In 1982 Northern Telecom and its consolidated subsidiaries raised a total of approximately $130 million of debt and equity capital compared with $126 million in 1981. In addition, in December 1982, a wholly-owned non-consolidated finance subsidiary of Northern Telecom raised in Europe US $80 million subordinated debentures due in 1997 and convertible into Northern Telecom's common shares at US $73. Assuming conversion of these debentures and all other securities, (including a proposed additional issue, in March 1983, of US $50 million convertible subordinated debentures by that non-consolidated finance subsidiary), Bell Canada's ownership of common shares in Northern Telecom would decrease from 55.4 per cent to approximately 51 per cent.

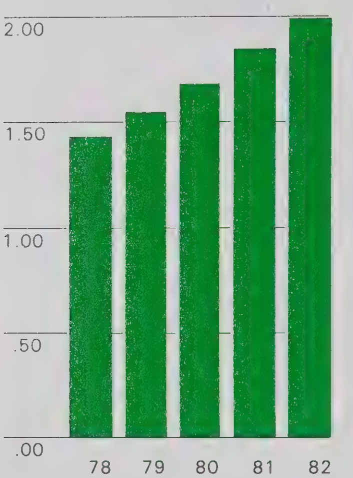
Northern Telecom's capital spending in 1983 is expected to be approximately $310 million. The need for capital in 1983 will be met primarily from internally generated funds, although Northern Telecom will continue to take advantage of attractive financing opportunities that it may identify.

Market Price of Common Stock and Related Security Holder Matters

The principal markets are the Montreal Exchange and the Toronto Stock Exchange. The common shares are also listed on the Vancouver Stock Exchange in Canada and the New York Stock Exchange in the United States as well as the stock exchanges of Amsterdam, Basle, Brussels, Düsseldorf, Frankfurt am Main, Geneva, London, Paris and Zürich.

The following table shows the high and low prices of the shares on the Montreal and Toronto exchanges (taken together), and on the New York Stock Exchange consolidated tape in the United States, which includes the NYSE and other U.S. stock exchanges.

Dividends declared per common share
Dollars



Price ranges of common shares	1982		1981	
	High	Low	High	Low
Montreal and Toronto				
1st quarter	$19 1/4	$17 1/4	$20	$18 1/2
2nd quarter	$20 3/8	$17 1/2	$19 1/2	$18
3rd quarter	$19 1/4	$16 5/8	$19 1/8	$16 7/8
4th quarter	$24 1/2	$18 7/8	$20	$17
NYSE consolidated tape (US$)				
1st quarter	$16 1/4	$14 1/4	$16 3/4	$15 3/8
2nd quarter	$16 3/8	$13 1/2	$16 1/4	$15 1/8
3rd quarter	$15 1/2	$13 1/4	$15 3/4	$14 1/8
4th quarter	$19 3/4	$15 1/4	$17 1/8	$14 1/8

Quarterly dividends of $0.49 per common share were paid in 1982 ($0.45 — 1981).

On November 24, 1982, an increase in the dividend on common shares was declared. The final 1982 quarterly dividend, which was paid on January 15, 1983, was raised to $0.52. The indicated annual rate is now $2.08, an increase of $0.12 over the previous annual rate.

At January 27, 1983 there were approximately 291,500 registered holders of common shares.

Canadian taxes on foreign investors

Income taxes

Dividends and Interest on Bell Canada securities held by investors who are non-residents of Canada are subject to Canadian withholding tax, unless exempted. Interest on Bell Canada Series 1 notes, Series P bonds, Series 2 and Series DA through DL debentures and stock dividends paid pursuant to the Bell Canada optional Stock Dividend Program are generally exempt from Canadian withholding tax.

Unless reduced by treaty or specifically exempted, the statutory rate of Canadian withholding tax on dividends in respect of Bell Canada shares and on interest in respect of Bell Canada debt securities is 25 per cent. The corresponding rate for Bell Canada investors qualifying under the present United States-Canada Income Tax Convention and not having a "permanent establishment" in Canada is 15 per cent.

Gains on Disposals of Bell Canada securities by a non-resident of Canada are generally not subject to Canadian income tax unless realized by the holder in connection with a business (including an "adventure in the nature of trade") carried on in Canada.

Estate and succession duties

There are no estate taxes or succession duties imposed by Canada or any province of Canada with the exception of succession duties in the province of Quebec. No Quebec succession duties are payable in respect of the transmission, by reason of death of the holder, of Bell Canada securities situated outside Quebec to a beneficiary who at the time of death is neither domiciled nor resident in such province.

Selected Financial and Other Data

	1982	1981	1980	1979	1978
Consolidated					
Income statement data (millions of dollars)					
Telecommunications operations — operating revenues	$ 4,570.1	$ 4,035.1	$ 3,366.2	$ 2,961.6	$ 2,621.7
Manufacturing operations — revenues	2,986.5	2,531.0	2,018.5	1,864.1	1,470.0
Contract and other operations — operating revenues	854.7	823.8	652.3	439.0	282.6
Total revenues	8,411.3	7,389.9	6,037.0	5,264.7	4,374.3
Income before extraordinary items	622.2	550.7	363.7	433.2	370.6
Net income	626.1	559.4	273.7	433.2	395.1
Balance sheet data (millions of dollars)					
Total assets*	$13,421.8	$12,452.0	$11,449.0	$10,376.5	$ 9,205.3
Common equity*	4,255.2	3,859.3	3,463.3	3,342.1	2,840.4
Convertible preferred shares* (redeemable)	422.3	258.2	345.7	216.7	290.7
Non-convertible preferred shares* (redeemable)	100.1	103.4	108.4	112.3	114.0
Minority interest*	526.9	447.2	391.9	467.7	296.7
Long term debt* (including current portion)	4,801.0	4,729.3	4,405.9	3,816.3	3,536.3
Gross capital expenditures	1,759.6	1,713.9	1,598.2	1,351.0	1,184.0
Common share data					
Earnings per common share					
before extraordinary items	$ 3.11	$ 2.97	$ 2.00	$ 2.64	$ 2.49
after extraordinary items	$ 3.13	$ 3.02	$ 1.45	$ 2.64	$ 2.67
Assuming full dilution					
before extraordinary items	$ 3.03	$ 2.89	$ 1.98	$ 2.55	$ 2.36
after extraordinary items	$ 3.05	$ 2.94	$ 1.45	$ 2.55	$ 2.52
Dividends declared per common share	$ 1.99	$ 1.84	$ 1.68	$ 1.55	$ 1.43
Equity per common share*	$ 22.67	$ 21.74	$ 20.70	$ 21.09	$ 20.12
Percent of common shares held in Canada*	96.0	96.1	96.1	95.6	94.3
Number of shareholders* (including preferred)	284,378	271,478	272,081	250,172	228,285
Other statistics					
Telephones in service* (thousands)	9,887.6	10,062.5	9,988.0	9,642.0	9,328.4
Lines in service* (thousands)	6,721.5	6,649.6	6,467.2	6,227.0	6,052.7
Long distance messages (millions)	791.1	792.6	741.0	687.4	643.2
Non-consolidated					
Income statement data (millions of dollars)					
Telecommunications operations — operating revenues	$ 4,359.3	$ 3,845.1	$ 3,203.1	$ 2,817.1	$ 2,497.4
Contract operations — operating revenues	469.1	493.2	453.6	319.8	185.6
Total revenues	4,828.4	4,338.3	3,656.7	3,136.9	2,683.0
Income before extraordinary item	521.4	476.0	365.9	355.8	300.8
Net income	521.4	476.0	365.9	385.6	304.9
Balance sheet data (millions of dollars)					
Investments*	$ 497.2	$ 460.9	$ 439.3	$ 417.6	$ 320.7
Total assets*	10,620.0	10,004.7	9,228.8	8,380.1	7,713.2
Long term debt* (including current portion)	3,936.8	3,877.6	3,596.9	3,187.5	3,080.7
Gross capital expenditures	1,417.2	1,401.5	1,297.0	1,116.7	1,003.7
Common share data					
Earnings per common share					
before extraordinary item	$ 2.56	$ 2.54	$ 2.01	$ 2.13	$ 1.96
after extraordinary item	$ 2.56	$ 2.54	$ 2.01	$ 2.32	$ 1.99
Assuming full dilution					
before extraordinary item	$ 2.52	$ 2.49	$ 1.99	$ 2.08	$ 1.91
after extraordinary item	$ 2.52	$ 2.49	$ 1.99	$ 2.26	$ 1.93
Equity per common share*	$ 20.29	$ 19.81	$ 19.15	$ 18.87	$ 17.96
Financial ratios					
Percent return on total capital	10.9	10.9	9.5	9.7	9.3
Percent return on common equity	12.7	13.1	10.6	11.5	11.1
Interest as a percent of total average debt	9.2	9.0	8.5	8.1	7.9
Debt as a percent of total capital*	47.7	50.2	49.6	49.2	51.5
Times interest charges earned	3.6	3.6	3.4	3.5	3.4
Other statistics					
Telephones in service* (thousands)	9,432.0	9,609.4	9,548.1	9,221.8	8,945.4
Lines in service* (thousands)	6,416.2	6,348.2	6,174.5	5,947.1	5,793.7
Local conversations (millions)	13,309.2	13,199.9	12,409.9	11,974.2	11,717.1
Long distance messages (millions)	746.9	747.9	699.3	649.9	610.5
Number of employees*	55,761	58,659	57,267	56,128	53,328
Salary and wage payments (millions of dollars)	$ 1,581.4	$ 1,396.3	$ 1,205.4	$ 1,014.4	$ 868.1

* At December 31

Board of Directors

Marcel Bélanger, O.C., C.A.
Quebec, Quebec
President, Gagnon et Bélanger Inc.
A management consultant firm
Member since March 1969

G. Allan Burton, D.S.O., E.D.
Milton, Ontario
Company Director
Member since May 1974

A. Jean de Grandpré, O.C., Q.C.
Outremont, Quebec
Chairman of the Board and
Chief Executive Officer, Bell Canada
Member since July 1972

J. Peter Gordon
Mississauga, Ontario
Chairman and Chief Executive Officer
Stelco Inc.
A steel company
Member since April 1982

H. Clifford Hatch
Windsor, Ontario
Chairman, President
and Chief Executive Officer
Hiram Walker Resources Ltd.
A producer of distilled spirits,
gas and oil
Member since April 1974

James W. Kerr
Toronto, Ontario
Consultant to and Director
TransCanada PipeLines Limited
A natural gas transmission company
Member since August 1970

Paul H. Leman, O.C.
Outremont, Quebec
Company Director
Member since April 1976

Walter F. Light
Toronto, Ontario
Chairman and Chief Executive Officer
Northern Telecom Limited
Member since January 1980

Helen L. Margison
Toronto, Ontario
Company Director
Member since April 1978

E. Neil McKelvey, Q.C.
Saint John, New Brunswick
Partner, McKelvey, Macaulay,
Machum
A law firm
Member since April 1973

John H. Moore
Lambeth, Ontario
Chairman, Executive Committee
of the Board of Directors
London Life Insurance Company
Member since March 1966

J. Dean Muncaster
Toronto, Ontario
President and Chief Executive Officer
Canadian Tire Corporation, Limited
A wholesale distributor of
automotive, hardware and
sporting goods
Member since April 1977

Gérard Plourde, O.C.
Montreal, Quebec
Chairman of the Board, U A P Inc.
An automotive parts distributor
Member since January 1973

Robert J. Richardson, Sc.D.
Greenville, Delaware, U.S.A.
Executive Vice-President
E.I. du Pont de Nemours and
Company
A chemical manufacturer
Member since January 1978

H. Rocke Robertson, C.C., M.D.
Mountain, Ontario
Company Director
Member since July 1965

Lucien G. Rolland
Montreal, Quebec
President and Chief Executive Officer
Rolland inc.
A manufacturer and
distributor of fine papers
Member since July 1965

James C. Thackray
Toronto, Ontario
President, Bell Canada
Member since April 1976

Orland Tropea
Pointe Claire, Quebec
Vice-Chairman
Bell Canada
Member since April 1980

Louise Brais Vaillancourt
Outremont, Quebec
President
Fondation Armand-Frappier
A non-profit organization
involved in the funding of various
research programs for the Institut
Armand-Frappier
Member since January 1975

J. Douglas Gibson, O.B.E.
Toronto, Ontario
Chairman of the Board of
Canadian Reinsurance Company
and of Canadian Reassurance
Company
Member since March 1970
Retired April 1982

John P. Robarts, P.C., C.C., Q.C.
Toronto, Ontario
Partner, Stikeman, Elliott,
Robarts & Bowman
Member since June 1971
Deceased October 1982

Paul H. Leman
E. Neil McKelvey
Louise Brais Vaillancourt

J.C. Thackray
H.C. Hatch

Gérard Plourde
James W. Kerr
J. Dean Muncaster

Committees of the Board of Directors*

Executive Committee
A.J. de Grandpré — chairman
J.W. Kerr
P.H. Leman
W.F. Light
J.H. Moore
G. Plourde
H.R. Robertson
J.C. Thackray

Pension Fund Policy Committee
J.D. Muncaster — chairman
G.A. Burton
J.P. Gordon
E.N. McKelvey
R.J. Richardson

Audit Committee
M. Bélanger — chairman
P.H. Leman
E.N. McKelvey
J.H. Moore
L.G. Rolland
L. Brais Vaillancourt

Social and Environmental Affairs Committee
L. Brais Vaillancourt — chairman
H.L. Margison
H.R. Robertson
J.C. Thackray
O. Tropea

Management Resources and Compensation Committee
J.W. Kerr — chairman
M. Bélanger
G.A. Burton
J.P. Gordon
H.C. Hatch

*as at December 31, 1982

Director, Officer changes

J. Douglas Gibson retired from the Board of Directors in April following more than twelve years of most valued service to the corporation. Elected at the last Annual Meeting to succeed Mr. Gibson was J. Peter Gordon, Chairman and Chief Executive Officer of Stelco Inc.

The death in October of John P. Robarts, an outstanding member of the Board of Directors since 1971, was a great loss to the corporation and his fellow directors.

In January 1983, the corporation announced the appointment of Jacques B. Bérubé as Vice-President, Operations Development (Quebec Region), Murray J. Makin as Vice-President, Customer Services (Ontario Region) and John F. Stinson as Vice-President, Administration (Ontario Region); also announced was the retirement of Wilfred D.E. Anderson, J. Robert Brûlé, Robert W. Crowley and Robert N. Washburn. These Officer changes will be effective during the month of March.

A. J. de Grandpré
O. Tropea

J. Peter Gordon
G. Allan Burton
Walter F. Light

John H. Moore
Marcel Bélanger
Lucien G. Rolland

H. Rocke Robertson
Robert J. Richardson
Helen L. Margison

Officers*

Chairman

A. Jean de Grandpré, O.C., Q.C.
Chairman of the Board
and Chief Executive Officer

President

James C. Thackray
President

Vice-Chairman and Executive Vice-Presidents

Orland Tropea
Vice-Chairman

J.V. Raymond Cyr
Executive Vice-President
Administration

Frederick E. Ibey
Executive Vice-President
Ontario Region

Gordon E. Inns
Executive Vice-President
Marketing

Léonce Montambault
Executive Vice-President
Quebec Region

Vice-Presidents

P. André Aubin
Vice-President
Operations Performance

J. Robert Brûlé**
Vice-President
Operations Development
Quebec Region

Robert W. Crowley**
Vice-President
Customer Services
Ontario Region

Donald J. Cruickshank
Vice-President
Corporate Communications

Douglas W. Delaney
Vice-President
Marketing
Ontario Region

Claude Duhamel
Vice-President
Administration
Quebec Region

John H. Farrell
Vice-President
Computer Communications

George L. Henthorn
Vice-President & Comptroller

W. Brian Hewat
Vice-President
Marketing and Development

Robert Kearney
Vice-President
Systems

John A. McCutcheon
Vice-President
Personnel

Andrew M. McMahon
Vice-President
Engineering

Jean C. Monty
Vice-President
Customer Services
Quebec Region

Hubert A. Roth
Vice-President
Network Services
Ontario Region

Claude St-Onge
Vice-President
Network Services
Quebec Region

Ernest E. Saunders, Q.C.
Vice-President
Law and Corporate Affairs

John E. Sinclair
Vice-President
Regulatory Matters

J. Stuart Spalding
Vice-President & Treasurer

John F. Stinson**
Vice-President
Operations Development
Ontario Region

Bruce H. Tavner
Vice-President
International

Robert N. Washburn**
Vice-President
Administration
Ontario Region

Corporate Secretary

Guy Houle
Corporate Secretary

*as at December 31, 1982
** see Director, Officer changes on page 47

Corporate Information

Trustee for Bonds
Canada Permanent Trust Company

Trustees for Debentures
The Royal Trust Company

Morgan Guaranty Trust Company of New York

Transfer Offices for Bonds and Debentures

Bonds and debentures issued in Canada only:

The Royal Trust Company
Montreal; Toronto; St. John's, Nfld.; Halifax; Charlottetown; Saint John, N.B.; Winnipeg; Regina; Calgary; Vancouver

Bonds issued in the United States only:

The Royal Trust Company
Montreal

Debentures issued in the United States only:

The Royal Trust Company
Montreal

Morgan Guaranty Trust Company of New York

Transfer Offices for Stock

Canada:

Corporate Offices
1050 Beaver Hall Hill
Montreal
483 Bay Street
Toronto

The Royal Trust Company
St. John's, Nfld.; Halifax; Charlottetown; Saint John, N.B.; Winnipeg; Regina; Calgary; Vancouver

Outside Canada — Common shares only:

Morgan Guaranty Trust Company of New York

The Royal Trust Company
London, England

Registrar for Stock

Canada:

Montreal Trust Company
Montreal; Toronto; St. John's, Nfld.; Halifax; Charlottetown; Saint John, N.B.; Winnipeg; Regina; Calgary; Vancouver

Outside Canada — Common shares only:

Morgan Guaranty Trust Company of New York

Williams & Glyn's Registrars Limited
London, England

Listing of Stock

Canada:

Montreal, Toronto, Vancouver Stock Exchanges

Outside Canada — Common shares only

Belgium
Brussels Stock Exchange

France
Paris Stock Exchange

Germany
Frankfurt am Main, Düsseldorf Stock Exchanges

Switzerland
Zürich, Basle, Geneva Stock Exchanges

The Netherlands
Amsterdam Stock Exchange

United Kingdom
The Stock Exchange

United States
New York Stock Exchange

Debentures issued outside Canada:

Luxembourg
Series DB, DD
Luxembourg Stock Exchange

Switzerland
Series 2
Basle, Berne, Geneva, Lausanne, Zürich Stock Exchanges

United Kingdom
Series DH, DL
The Stock Exchange

United States
Series DA, DE, DJ, DK
New York Stock Exchange

Shareholder plans

Shareholders wishing to acquire additional common shares of Bell Canada can take advantage of two investment plans.

The Shareholder Dividend Reinvestment and Stock Purchase Plan (DRP) provides a convenient method for shareholders to reinvest their common share cash dividends in new common shares of Bell Canada at 95 per cent of the average market price. Participants in DRP may also invest optional cash payments of up to $3,000 per quarter in new common shares of Bell Canada at 100 per cent of the average market price.

The optional Stock Dividend Program (SDP) allows participating shareholders to receive common share dividends in the form of new common shares of Bell Canada (stock dividends) at 100 per cent of the average market price. Unlike cash dividends, shares issued under SDP as stock dividends to residents of Canada are not generally subject to tax when received, but rather are taxed on a capital gains basis when the holders dispose of them.

Shareholders participating in DRP or SDP pay no brokerage commissions or service charges on the acquisition of these shares and all administrative costs of these plans are borne by Bell Canada.

Additional information can be obtained from:
The Treasurer, Bell Canada,
P.O. Box 6074, Station A,
Montreal, Quebec, Canada
H3C 3G4.

AR04

Preliminary Prospectus dated January 27, 1982 — Nº 0595

This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities.

No Securities Commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder, and any representation to the contrary is an offence.

New Issue

$ • ,000,000

Bell Canada

• shares

$ • Cumulative Redeemable Convertible Voting Preferred Shares, Class E, Series I, of the par value of $ • each

Fixed, cumulative, preferred cash dividends of $ • per share per annum, when and as declared by the Board of Directors, will accrue from • , 1982 and will be payable quarterly on the 15th day of February, May, August and November. The terms of the Series I Preferred Shares are summarized under "Prospectus Summary" and "Description of the Series I Preferred Shares" and are set forth in full in the Schedule to this prospectus.

Conversion Privilege

The Series I Preferred Shares will be convertible at the option of the holder at any time prior to the close of business on • , 1992 or the last business day prior to the date fixed for redemption of such shares, whichever is the earlier, into common shares of Bell Canada on the conversion basis of one common share for one Series I Preferred Share. This conversion basis will be subject to adjustment in certain events.

In the opinion of Counsel, these Series I Preferred Shares will be investments for insurance companies regulated under the Canadian and British Insurance Companies Act and Foreign Insurance Companies Act, in each case without recourse to the exceptional provisions thereunder permitting certain other investments.

We, as principals, conditionally offer, subject to prior sale, these Series I Preferred Shares if, as and when issued and accepted by us in accordance with the conditions contained in the agreement referred to under "Plan of Distribution", and subject to the approval of all legal details by Messrs. McMaster Meighen, counsel for Bell Canada, and by Messrs. Lafleur, Brown, de Grandpré on our behalf.

Price: $ • per share to yield • %

	Price to public	Total proceeds to Bell Canada	Underwriting commission	Net proceeds to Bell Canada*
Per share	$ •	$ •	$ •	$ •
Total	$ •	$ •	$ •	$ •

*Before deduction of Bell Canada's expenses of issue estimated at $ •

Subscriptions will be received subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice. It is expected that the Series I Preferred Shares will be available for delivery on or about • , 1982.

• , 1982

This is a preliminary prospectus relating to these securities, a copy of which has been filed with the Alberta, Saskatchewan, Manitoba and Ontario Securities Commissions and with the Superintendent of Brokers of British Columbia, but which has not yet become final for the purpose of distribution to the public. Information contained herein is subject to completion or amendment. These securities may not be sold nor may any offers to buy be accepted in any such province prior to the time a receipt is obtained for the final prospectus from the Securities Commission or other authority in such province.

TABLE OF CONTENTS

THE PRELIMINARY TERMS BEING CONSIDERED AT THIS TIME ARE:
AMOUNT: 150 MILLION PLUS
COUPON RATE: 13%
CONVERSION PREMIUM: 10-12%
CONVERSION TERM: 10 YEARS

Redemption .... I Preferred Shares originally issued remain outstanding). Redeemable thereafter at declining premiums.

		12 months ended September 30, 1981
Earnings coverage (Consolidated)	Maximum annual dividend requirements on outstanding preferred shares after giving effect to this financing.	• times
	Maximum annual grossed-up dividend requirements on outstanding preferred shares after giving effect to this financing and maximum annual aggregate interest on long term debt.	• times
Asset coverage (Consolidated)	Outstanding preferred shares after giving effect to this financing.	• times
	Outstanding preferred shares after giving effect to this financing and long term debt.	• times

THE COMPANY

(See "Business of the Company")

Parent .... Bell Canada, the largest supplier of telecommunications services in Canada, operates in Ontario, Québec and the Northwest Territories.

Telephone subsidiary and associated companies..... Provide telecommunications services in parts of Ontario and Québec and in Newfoundland, New Brunswick and Nova Scotia.

Manufacturing subsidiary.. Northern Telecom Limited, owned 55.1% by Bell Canada, is the largest manufacturer of telecommunications equipment in Canada.

Research subsidiary ..... Bell-Northern Research Ltd., owned 70% by Northern Telecom Limited and 30% by Bell Canada.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(millions of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Total revenues							
Telecommunications operations	$1,995.5	$2,241.7	$2,621.7	$ 2,961.6	$ 3,366.2	$ 2,430.0	$ 2,919.3
Manufacturing operations	1,073.4	1,194.7	1,470.0	1,864.1	2,018.5	1,495.7	1,833.6
Contract and other operations	61.2	76.7	282.6	439.0	652.3	445.8	562.4
	$3,130.1	$3,513.1	$4,374.3	$ 5,264.7	$ 6,037.0	$ 4,371.5	$ 5,315.3
Income before extraordinary items	$ 287.4	$ 286.2	$ 370.6	$ 433.2	$ 363.7	$ 271.5	$ 368.3
Working capital	$ 182.6	$ 140.2	$ 390.3	$ 600.2	$ 615.6	$ 550.6	$ 438.8
Total assets	$6,675.4	$7,342.9	$9,205.3	$10,376.5	$11,449.0	$11,238.5	$12,091.3
Long term debt (including amount due within one year)	$2,567.3	$2,821.3	$3,536.3	$ 3,816.3	$ 4,405.9	$ 4,049.2	$ 4,549.9
Shareholders' equity — preferred	$ 377.0	$ 356.5	$ 404.7	$ 329.0	$ 454.1	$ 480.0	$ 367.6
— common	$2,296.4	$2,519.0	$2,840.4	$ 3,342.1	$ 3,463.3	$ 3,489.5	$ 3,730.6

The above material is a selective summary. More detailed information appears elsewhere in this prospectus.

TABLE OF CONTENTS

PROSPECTUS SUMMARY

THE OFFERING

(See "Description of the Series I Preferred Shares" and "Schedule")

Issue .... $ • ,000,000, comprised of • $ • Cumulative Redeemable Convertible Voting Preferred Shares, Class E, Series I, each of the par value of $ • .

Price and yield .... $ • per share, to yield • %.

Dividend .... Fixed, cumulative preferred dividends at the annual rate of $ • per share, payable quarterly on the 15th day of February, May, August and November. An initial dividend of $ • will be payable on May 15, 1982.

Conversion privilege ..... Convertible at any time on or before • , 1992 into common shares of Bell Canada on the conversion basis of one common share for one Series I Preferred Share.

Redemption .... Not redeemable prior to • , 198• (unless not more than • % of the Series I Preferred Shares originally issued remain outstanding). Redeemable thereafter at declining premiums.

		12 months ended September 30, 1981
Earnings coverage (Consolidated)	Maximum annual dividend requirements on outstanding preferred shares after giving effect to this financing.	• times
	Maximum annual grossed-up dividend requirements on outstanding preferred shares after giving effect to this financing and maximum annual aggregate interest on long term debt.	• times
Asset coverage (Consolidated)	Outstanding preferred shares after giving effect to this financing.	• times
	Outstanding preferred shares after giving effect to this financing and long term debt.	• times

THE COMPANY

(See "Business of the Company")

Parent .... Bell Canada, the largest supplier of telecommunications services in Canada, operates in Ontario, Québec and the Northwest Territories.

Telephone subsidiary and associated companies..... Provide telecommunications services in parts of Ontario and Québec and in Newfoundland, New Brunswick and Nova Scotia.

Manufacturing subsidiary. . Northern Telecom Limited, owned 55.1% by Bell Canada, is the largest manufacturer of telecommunications equipment in Canada.

Research subsidiary ..... Bell-Northern Research Ltd., owned 70% by Northern Telecom Limited and 30% by Bell Canada.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

(millions of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Total revenues							
Telecommunications operations	$1,995.5	$2,241.7	$2,621.7	$ 2,961.6	$ 3,366.2	$ 2,430.0	$ 2,919.3
Manufacturing operations	1,073.4	1,194.7	1,470.0	1,864.1	2,018.5	1,495.7	1,833.6
Contract and other operations	61.2	76.7	282.6	439.0	652.3	445.8	562.4
	$3,130.1	$3,513.1	$4,374.3	$ 5,264.7	$ 6,037.0	$ 4,371.5	$ 5,315.3
Income before extraordinary items	$ 287.4	$ 286.2	$ 370.6	$ 433.2	$ 363.7	$ 271.5	$ 368.3
Working capital	$ 182.6	$ 140.2	$ 390.3	$ 600.2	$ 615.6	$ 550.6	$ 438.8
Total assets	$6,675.4	$7,342.9	$9,205.3	$10,376.5	$11,449.0	$11,238.5	$12,091.3
Long term debt (including amount due within one year)	$2,567.3	$2,821.3	$3,536.3	$ 3,816.3	$ 4,405.9	$ 4,049.2	$ 4,549.9
Shareholders' equity — preferred	$ 377.0	$ 356.5	$ 404.7	$ 329.0	$ 454.1	$ 480.0	$ 367.6
— common	$2,296.4	$2,519.0	$2,840.4	$ 3,342.1	$ 3,463.3	$ 3,489.5	$ 3,730.6

The above material is a selective summary. More detailed information appears elsewhere in this prospectus.

THE COMPANY

Bell Canada was incorporated by Special Act of the Parliament of Canada in 1880 and has its principal offices at 1050 Beaver Hall Hill, Montréal, Québec. The Act of Incorporation of Bell Canada provides that it may be legally designated as The Bell Telephone Company of Canada, La Compagnie de Téléphone Bell du Canada or Bell Canada. As used herein the term "Bell Canada" refers to the parent company only and the term "Company" means Bell Canada and its subsidiary companies.

The Company is the largest Canadian supplier of telecommunications services and equipment, and provides telecommunications services and facilities in the Provinces of Ontario, Québec and Newfoundland and in the Northwest Territories. It also provides consulting services under contract to clients, principally foreign telecommunications organizations. In addition, Bell Canada has equity interests in The New Brunswick Telephone Company, Limited and in Maritime Telegraph and Telephone Company, Limited, which provide most of the telecommunications services in the Provinces of New Brunswick and Nova Scotia, respectively.

Bell Canada has the largest number of registered shareholders of any Canadian corporation. At September 30, 1981, there were approximately 255,000 registered holders of common shares, of whom 98% were registered as resident in Canada and held approximately 96% of the common shares outstanding. At the same date, there were approximately 35,000 registered holders of preferred shares, of whom 99% were registered as resident in Canada and held more than 99% of the preferred shares outstanding.

Northern Telecom Limited ("Northern Telecom") is the largest manufacturer of telecommunications equipment in Canada and it also manufactures and markets electronic office systems. At September 30, 1981, 55.1% of Northern Telecom's outstanding shares were owned by Bell Canada and the balance were held by the public. The cost of Bell Canada's investment in Northern Telecom represents 2.2% of Bell Canada's total assets.

In 1979, 1980 and for the nine months ended September 30, 1981 the percentage contribution to the Company's income before extraordinary items was as follows:

	1979	1980*	Nine months ended September 30, 1981
Bell Canada	75%	90%	78%
Northern Telecom	15	(3)	13
Other subsidiary and associated companies of Bell Canada	10	13	9
	100%	100%	100%

* After taking into account the extraordinary loss of $163.8 million incurred by Northern Telecom in 1980 (of which Bell Canada's share upon consolidation was $90 million) related principally to certain write-offs in its electronic office systems business, the above percentage contributions in 1980 would have been 119% by Bell Canada, (37%) by Northern Telecom and 18% for the balance.

DESCRIPTION OF THE SERIES I PREFERRED SHARES

The following is a summary of some of the preferences, privileges, rights, restrictions, conditions and limitations of or attaching to the $ ● Cumulative Redeemable Convertible Voting Preferred Shares, Class E, Series I of the par value of ● dollars ($ ●) each of Bell Canada (the "Series I Preferred Shares"). This summary does not purport to be complete and for full particulars reference is made to the Schedule to this prospectus.

Par Value — $ ● per share.

Dividend — fixed, cumulative and preferred at the annual rate of $ ● per share, payable quarterly on the 15th day of February, May, August and November, with an initial dividend to be payable on May 15, 1982 in the amount of ● cents representing the amount accrued to that date from ● , 1982.

Conversion Privilege — the Series I Preferred Shares are convertible at any time on or before ● , 1992 into common shares of Bell Canada on the conversion basis of one common share for one Series I Preferred Share; no adjustments in respect of dividends on the Series I Preferred Shares or the common shares; conversion rights subject to adjustment in certain events; no fractional common shares will be issued.

Ranking — on a parity with all other preferred shares issued by Bell Canada.

Redemption — not redeemable prior to ● , 198●; redeemable on and after ● , 198● in whole or in part at $ ● per share plus an initial premium of $ ● per share, declining by ● cents per annum; and at $ ● after ● , 199●.

Additional Right of Redemption — in the event that not more than ● % (● shares) of the Series I Preferred Shares originally issued remain outstanding, Bell Canada may redeem all, but not part, of such Series I Preferred Shares on payment for each such share to be redeemed of $ ● without premium together with accrued and unpaid dividends to the date fixed for redemption.

Purchase for Cancellation — in the open market at the lowest price obtainable, but not exceeding $ ● per share if purchased prior to ● , 198●, and not exceeding the then current redemption price if purchased on or after ● , 198●, plus in each case costs of purchase.

Purchase Fund — commencing with the calendar quarter ending June 30, 1992, Bell Canada will make all reasonable efforts to purchase in the open market at a price not exceeding $ ● in each calendar quarter ●% of the Series I Preferred Shares outstanding at the close of business on ● , 1992. Such purchase fund obligation will carry over only to the succeeding calendar quarters of the same calendar year after which it shall be extinguished.

Voting — one vote per share.

Adjustment of Conversion Price — the Series I Preferred Share conversion price of $ ● is subject to adjustment in certain events including, but not limited to, (i) common share subdivisions, consolidations or reclassifications, (ii) the issuance of a common stock dividend other than under the Optional Stock Dividend Program, (iii) the issue of rights to common shareholders to acquire common shares at a discount from market of more than 5%, and (iv) certain other distributions to common shareholders.

Additional Preferred Shares — may be issued, ranking on a parity with the Series I Preferred Shares, without authorization of holders of Series I Preferred Shares.

Restrictions on Distributions — distributions not permitted on shares ranking junior to the Series I Preferred Shares unless the latest quarterly dividend on the Series I Preferred Shares has been declared and paid or set apart for payment.

Rights on Liquidation — holders of Series I Preferred Shares shall be entitled to receive $ ● per share plus accrued dividends before any distribution of assets may be made to holders of any shares of Bell Canada ranking junior to the Series I Preferred Shares.

Notice of Certain Action — 12 days' public notice required of the record date of any dividend or distribution on Bell Canada common shares.

PLAN OF DISTRIBUTION

Under an agreement dated ● , 1982 between Bell Canada and Wood Gundy Limited, Dominion Securities Ames Limited, Greenshields Incorporated, Richardson Securities of Canada, McLeod Young Weir Limited and Lévesque, Beaubien Inc., as Underwriters, Bell Canada has agreed to sell and the Underwriters have agreed to purchase on ● , 1982, subject to the terms and conditions contained therein, ● Series I Preferred Shares at a price of $ ● per share, payable in cash to Bell Canada against delivery of the Series I Preferred Shares and Bell Canada has agreed to pay the Underwriters a commission of $ ● per share. The obligations of the Underwriters under such agreement may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated by them upon the occurrence of certain stated events. The Underwriters are, however, obligated to take up and pay for all of the Series I Preferred Shares if any of the Series I Preferred Shares are purchased under such agreement.

In connection with this offering, the Underwriters may overallot or effect transactions which stabilize or maintain the market price of the Series I Preferred Shares and the outstanding common shares of Bell Canada at a level above that which might otherwise prevail in the open market. Such transactions, if commenced, may be discontinued at any time.

All commissions payable to the Underwriters will be paid on account of services rendered in connection with the offering and will be paid out of the general funds of Bell Canada.

USE OF PROCEEDS

The net proceeds from the sale of the Series I Preferred Shares, estimated at $ • after deducting the expenses of issue estimated at $ • , will form part of the general funds of Bell Canada and will be used to pay for part of Bell Canada's expenditures for the acquisition and construction of additions and improvements to its telecommunications system and to provide additional working capital.

CAPITAL EXPENDITURES

The Company continues to make large capital expenditures principally to meet both the demands for telecommunications services and the improvement of such services. Total consolidated investment in telecommunications and other property increased from approximately $7,100,000,000 at December 31, 1975 to approximately $13,200,000,000 at September 30, 1981, after giving effect to additions as well as retirements, but before deducting the accumulated depreciation at either date.

Consolidated capital expenditures have been approximately as follows:

1976	$ 992,700,000	1979	$1,351,000,000
1977	$1,045,700,000	1980	$1,598,200,000
1978	$1,184,000,000	1981 (nine months ended September 30)	$1,179,500,000

Consolidated capital expenditures were approximately $1,725,000,000 in 1981 and are estimated to be approximately $1,975,000,000 in 1982. More than half of such expenditures are expected to be financed from internal sources.

As a result of Bell Canada's own capital expenditure program, which totalled approximately $1,400,000,000 in 1981 and is estimated to be approximately $1,625,000,000 in 1982, it has been necessary for it to obtain large amounts of new capital from external financing to supplement internally generated funds. Bell Canada expects that it will be necessary to obtain further large amounts of new capital, through debt and equity financing, to provide for future capital expenditures and to re-finance maturing long term debt. The balance of the Company's consolidated capital expenditures principally relates to Northern Telecom, which expects to finance its capital requirements in 1982 primarily from internally generated sources.

Bell Canada's capital expenditure program is reviewed annually by the Canadian Radio-television and Telecommunications Commission ("CRTC").

DIVIDEND RECORD

Bell Canada has paid dividends to its shareholders in respect of every year since 1881. During the past five fiscal years and the nine months ended September 30, 1981 Bell Canada has paid the following dividends per share*:

	Year					Nine months
	1976	1977	1978	1979	1980	1981
	$	$	$	$	$	$
Common shares**	1.17	1.33	1.39	1.52	1.64	1.35
$3.20 convertible preferred shares	3.20	3.20	3.20	3.20	3.20	2.40
$3.34 convertible preferred shares	3.34	3.34	3.34	3.34	3.34	2.50
$4.23 convertible preferred shares	4.23	4.23	4.23	4.23	4.23	3.17
$2.28 convertible preferred shares	2.28	2.28	2.28	2.28	2.28	1.71
$1.96 convertible preferred shares	—	—	0.97	1.96	1.96	1.47
$2.05 convertible preferred shares	—	—	—	—	1.03	1.54
$2.25 preferred shares	2.25	2.25	2.25	2.25	2.25	1.68
$1.80 preferred shares	—	1.74	1.80	1.80	1.80	1.35

*The amounts shown represent the dividends paid out during the periods. These amounts differ from those shown in Bell Canada's financial statements wherein dividends are treated on an accrual basis.

**Amounts have been adjusted for the three-for-one common share subdivision effective in April 1979.

On November 25, 1981, the Board of Directors declared a quarterly dividend of $0.49 per common share which was paid on January 15, 1982 to holders of record on December 15, 1981. This dividend represents an indicated annual dividend rate of $1.96 per common share.

PRICE RANGE OF COMMON SHARES

The common shares of Bell Canada are listed on the Montréal, Toronto and Vancouver Stock Exchanges in Canada, on the New York Stock Exchange, and on the stock exchanges in Amsterdam, Basle, Brussels, Düsseldorf, Frankfurt am Main, Geneva, London, Paris and Zürich. The following table sets forth the combined price range and volume of the common shares traded on the Montréal and Toronto Stock Exchanges for the periods indicated.

Period	High	Low	Number of shares traded
1980 1st quarter	$21⅛	$17⅝	7,181,700
2nd quarter	21⅛	17¾	6,523,700
3rd quarter	20½	18½	5,232,900
4th quarter	20⅞	18⅜	5,117,500
1981 1st quarter	20	18½	6,013,700
2nd quarter	19½	18	7,450,900
3rd quarter	19⅛	16⅞	6,170,100
October	18⅛	17	1,676,400
November	20	17⅞	2,406,800
December	19⅞	18⅝	1,982,600
1982 January (to January 25)	19¼	17¼	1,198,900

On January 26, 1982 the closing sale price of the common shares on the Montréal and Toronto Stock Exchanges was $17¾.

EARNINGS COVERAGE

The aggregate maximum annual dividend requirements for all preferred shares of Bell Canada outstanding on September 30, 1981 and after giving effect to this financing will amount to $ • . Consolidated income before extraordinary items available for the payment of dividends for the twelve month period ended September 30, 1981 was $460,471,000 or approximately • times such dividend requirements. Income before extraordinary item, on a non-consolidated basis, for the twelve month period ended September 30, 1981 was $434,787,000 or approximately • times such dividend requirements.

The aggregate maximum annual dividend requirements for all preferred shares of Bell Canada outstanding on September 30, 1981 (grossed up to a pre-tax equivalent basis using the Bell Canada income tax rate) and after giving effect to this financing, together with the maximum annual interest requirements of the long term debt of the Company outstanding on September 30, 1981 will amount to $ • . Consolidated income before extraordinary items for the twelve month period ended September 30, 1981, before deduction of interest on long term debt and income taxes and adjusted for an imputed return on the net proceeds of this financing, was $ • or approximately • times consolidated interest and dividend requirements. Income before extraordinary item for the twelve month period ended September 30, 1981, on a non-consolidated basis, before deduction of interest on long term debt and income taxes and adjusted for an imputed return on the net proceeds of this financing, was $ • which is approximately • times non-consolidated interest and dividend requirements.

NET TANGIBLE ASSET COVERAGE

Based on the consolidated balance sheet of the Company as at September 30, 1981 forming part of this prospectus (page 31), and after giving effect to this financing, consolidated net tangible assets would be as follows:

		(thousands of dollars)
Telecommunications, manufacturing and other property, at cost (after deducting accumulated depreciation)		$9,142,715
Investments		500,670
Current assets		●
Other assets		51,624
		●
Less: Current liabilities	$1,503,533	
Deferred credits	1,509,165	
Minority interest	430,465	
Long term debt (including amounts due within one year)	4,549,881	7,993,044
Net tangible assets		$ ●
Aggregate par value of all preferred shares		$ ●

On the above basis consolidated net tangible assets would be ● times the aggregate maximum par value of all preferred shares of Bell Canada; and consolidated net tangible assets of the Company (before deduction of long term debt of the Company) would amount to ● times the sum of the principal amount of such long term debt and the aggregate par value of all preferred shares of Bell Canada.

Based on the non-consolidated balance sheet of Bell Canada as at September 30, 1981 set out in this prospectus as supplementary information and after giving effect to this financing, net tangible assets of Bell Canada available for all preferred shares would be ● times the aggregate maximum par value of all preferred shares of Bell Canada; and net tangible assets of Bell Canada (before deduction of long term debt of Bell Canada) would amount to ● times the sum of the principal amount of such long term debt and the aggregate par value of all preferred shares of Bell Canada.

CONSOLIDATED CAPITAL STRUCTURE

	(dollars in thousands)		
	September 30, 1981	December 31, 1981 (unaudited)	At December 31, 1981, after giving effect to this financing (unaudited)
Shareholders' Equity			
Common shares outstanding, par value $8⅓(1)	$1,459,889 (175,186,720 shs.)	$1,479,008 (2) (177,480,915 shs.)	$1,479,008 (2) (177,480,915 shs.)
Convertible preferred shares			
Outstanding (1)	263,233	258,183	258,183
This issue	—	—	•
Non-convertible preferred shares			
Outstanding (1)	104,430	103,436	103,436
Premium on capital stock	983,088	1,005,162	1,005,162
Contributed surplus	15,290	15,290	15,290
Consolidated retained earnings	1,272,353	1,272,353 (4)	1,272,353 (4)
	4,098,283	4,133,432	•
Minority Interest in Subsidiary Companies			
Preferred shares	28,153	28,153 (4)	28,153 (4)
Common shares	402,312	402,312 (4)	402,312 (4)
	430,465	430,465	430,465
Debt (3)			
Bell Canada			
Long term debt (including amount due within one year)			
First mortgage bonds (5)	1,652,566	1,652,566	1,652,566
Debentures (5)	1,695,000	1,761,586 (6)	1,761,586 (6)
Notes	22,000	121,878 (6)	121,878 (6)
Other	62,446	61,025	61,025
Exchange premium less discount, at time of issue, on debt payable in U.S. funds	112,669	112,571	112,571
Unrealized foreign currency losses	199,920	167,922	167,922
Long term debt — Bell Canada	3,744,601	3,877,548	3,877,548
Notes payable	63,318	24,273	24,273
Debt of Bell Canada	3,807,919	3,901,821	3,901,821
Subsidiary companies including debt due within one year	1,003,508	990,190	990,190
Total debt	4,811,427	4,892,011	4,892,011
TOTAL CAPITALIZATION	$9,340,175	$9,455,908	$ •

Notes to Consolidated Capital Structure

(1) For description of capital stock, see notes 7, 8 and 9 of the Notes to Financial Statements.

(2) Under the Employees' Savings Plan (1966) referred to under "Employees' Savings Plans", as at December 31, 1981, deposits totalling $4,326,000 had been received from employees of Bell Canada and certain subsidiaries for the future purchase of common shares.

(3) All first mortgage bonds issued by Bell Canada rank *pari passu* with one another, and all debentures issued by Bell Canada rank *pari passu* with one another. For details of debt, reference is made to notes 10 and 11 of the Notes to Financial Statements.

(4) At September 30, 1981.

(5) Aggregate principal amounts of first mortgage bonds and debentures include $1,478,000,000 payable in U.S. funds.

(6) Includes the Canadian dollar equivalent of Swiss Francs 150,000,000 principal amount of 8⅛% Series 1 Notes and Swiss Francs 100,000,000 principal amount of 7¼% Series 2 Debentures issued on November 19, 1981 and due 1987 and 1993, respectively.

(7) See note 13 of the Notes to Financial Statements as to the extent of obligations arising by virtue of leases.

1981 YEAR-END UNAUDITED OPERATING RESULTS

The consolidated results for the three months and year ended December 31, 1981, along with the comparative figures for 1980, are set out below:

	(Dollars in millions except per share amounts) Three months ended December 31,		Year ended December 31,	
	1980	1981	1980	1981
		(unaudited)		(unaudited)
Telecommunications operations — operating revenues	$ 936.2	$1,115.8	$3,366.2	$4,035.1
Manufacturing operations — sales	522.8	697.4	2,018.5	2,531.0
Contract and other operations — operating revenues	206.5	261.4	652.3	823.8
Income before extraordinary items	92.2	182.4	363.7	550.7
Extraordinary items	(90.0)	—	(90.0)	8.7
Net income	2.2	182.4	273.7	559.4
Dividends on preferred shares	10.5	8.5	38.2	35.4
Net income applicable to common shares	(8.3)	173.9	235.5	524.0
Earnings per common share*				
— before extraordinary items	0.49	0.99	2.00	2.97
— after extraordinary items	(0.05)	0.99	1.45	3.02
*Based on weighted average common shares outstanding (thousands)	165,669	176,431	162,762	173,586

BUSINESS OF THE COMPANY

Telecommunications operations

The Company owns and operates about 10.1 million telephones in Canada, representing approximately 60% of the estimated 16.8 million telephones owned and operated by telephone companies in Canada. The Company accounts for approximately 95% of all telephones owned and operated by telephone companies in Ontario and Québec. Almost all of the Company's telephones are dial-operated and equipped for Direct Distance Dialing.

Bell Canada's telephone subsidiaries provide substantially all the telephones in the areas they serve.

The following table sets forth information concerning the Company's telecommunications services:

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Telephones in service(1) (thousands)							
Business	2,579	2,674	2,776	2,890	2,992	2,982	3,042
Residence	6,079	6,308	6,552	6,752	6,996	6,972	7,043
Total telephones in service	8,658	8,982	9,328	9,642	9,988	9,954	10,085
Extensions included above(1)(2) (thousands)							
Business	1,579	1,627	1,684	1,748	1,810	1,796	1,823
Residence	1,584	1,681	1,784	1,869	1,927	1,944	1,872
Total extensions	3,163	3,308	3,468	3,617	3,737	3,740	3,695
Long distance messages (millions)	556	588	643	687	741	551	596

(1) At end of period.

(2) Under interim regulations adopted by the CRTC in the third quarter of 1980, subscribers may now connect their own terminal equipment other than the main telephone which must be provided by Bell Canada to Bell Canada's facilities. Under current regulations, all telephones in the service areas of Bell Canada's subsidiary companies are required to be telephone-company owned and operated.

Integrated planning with other telephone companies in Canada and the United States enables the Company to provide its customers with telecommunications services throughout Canada, the United States and other parts of the world. Bell Canada is a member of the TransCanada Telephone System ("TCTS"), a working association of nine major Canadian telephone companies and of Telesat Canada ("Telesat"). The TCTS network provides a full range of coast-to-coast telecommunications services and a wide variety of transmission facilities including coast-to-coast microwave radio relay systems and satellite channels.

In addition to basic local and long distance residential and business telephone services, other telecommunications services are provided by the Company. For instance, Bell Canada supplies customers with private branch exchange ("PBX") services, key telephone systems plus auxiliary services such as paging services, mobile telephones and automatic answering equipment. Bell Canada also sells new terminal equipment in the residence market and certain in-place PBX and key systems. The Company's network facilities meet a wide variety of customer needs, such as specialized telecommunications systems required by electric utilities, the broadcast industry and pipeline companies. In addition, facilities for private line telephone and signal channel use are offered. Bell Canada in cooperation with TCTS plays a significant role in providing advanced data transmission facilities to meet the requirements of data communications users.

Telesat was incorporated in 1969 for the purpose of establishing telecommunications satellite systems. In 1973 it began providing, on a commercial basis, telecommunications services between locations in Canada. The Canadian Government owns 50% of the outstanding Telesat common shares, the Company owns 25% and other Canadian telecommunications common carriers own the balance.

The principal telecommunications system in Newfoundland and most telecommunications services in certain parts of Ontario and Québec not served directly by Bell Canada are provided by Bell Canada's telephone subsidiaries which at September 30, 1981 were:

Name	Telephones in service	Service areas
Newfoundland Telephone Company Limited (64.3% Company owned)	207,216	Newfoundland
Télébec Ltée (100% Company owned)	168,659	Certain areas of Québec
Northern Telephone Limited (99.8% Company owned) and The Capital Telephone Company Limited (100% Company owned)	75,659	Certain areas of Ontario

At September 30, 1981, Bell Canada also owned 36% of the outstanding common shares of The New Brunswick Telephone Company, Limited ("New Brunswick") and 37% of the outstanding common shares of Maritime Telegraph and Telephone Company, Limited ("Maritime"). At September 30, 1981, New Brunswick and Maritime had 400,076 and 516,338 telephones in service, respectively.

Newfoundland Telephone Company Limited, New Brunswick, Maritime and Telesat are members of TCTS.

Regulation

Bell Canada is subject to the jurisdiction of the CRTC in various respects including its rates, costing and accounting procedures and the issuance of its capital stock. The CRTC is an agency of the Canadian Federal Government.

There is no statutory requirement for the CRTC to fix a rate base and a rate of return on that base, or to fix a permissible level of earnings. The law requires that all rates shall be just and reasonable, and that Bell Canada shall not, in respect of rates or any services or facilities provided as a telephone company, make any unjust discrimination against any person or company or make or give any undue or unreasonable preference or advantage to or in favour of any particular person or company or any particular description of traffic.

Since 1966 the method of testing the reasonableness of Bell Canada's rates has taken the form of a rate of return on average total capital as determined for regulatory purposes. After taking into account the costs of outstanding debt and preferred equity capital, this method in effect becomes one of determining the permissible rate of return on average common equity. Net income for such purposes is comprised of Bell Canada's non-consolidated income before extraordinary items including the net revenues from Bell Canada's contract with the Ministry of Post, Telegraph and Telephone of the Kingdom of Saudi Arabia (the "Saudi Ministry"). For regulatory purposes Tele-Direct (Publications) Inc., a subsidiary which publishes Bell Canada's Canadian telephone directories, is considered an integral part of Bell Canada. In addition, effective January 1, 1982, net income for regulatory purposes also includes a deemed return of 15½% on an after-tax basis on Bell Canada's deemed investment in all other subsidiary and associated compa-

nies. Such deemed investment comprises: (i) Bell Canada's original cost of investment; (ii) Bell Canada's share of the retained earnings as at January 1, 1982 of all non-integral subsidiary and associated companies; and (iii) any future shortfall between the deemed return from all non-integral subsidiary and associated companies and the actual dividend return. Average common equity for regulatory purposes is comprised of Bell Canada's non-consolidated average common equity as augmented by items (ii) and (iii) above.

On February 12, 1981, Bell Canada filed an application with the CRTC for approval of increased rates to be implemented September 1, 1981 and for the establishment of a rate of return for regulatory purposes for 1982 in the range of 14½% to 15% on average common equity. The application stated that the proposed rate increases, if implemented as requested, would add $183 million to 1981 revenues and $550 million to 1982 revenues. The CRTC issued its decision on September 28, 1981 and approved rate increases which became effective October 2, 1981 and which are expected to generate approximately $440 million in additional revenues in 1982. The decision also concluded that an appropriate rate of return on average common equity as determined for regulatory purposes should be 14½% with a permissible range between 14¼% and 14¾%.

In its previous decision dated August 12, 1980, the CRTC had approved general rate increases, which were estimated to amount to $385 million in additional revenues in 1981, (as opposed to the $465 million requested by Bell Canada) and to provide a regulated rate of return on average common equity for 1981 of 12%. The decision required the inclusion of the consolidated net incomes of two subsidiaries, Tele-Direct Ltd. and Bell Canada-International Management, Research and Consulting Ltd. in the net income of Bell Canada for regulatory purposes because these subsidiaries were considered to be integral parts of Bell Canada. The decision also required the inclusion of the shortfall between a prescribed minimum dividend return (15% of average book cost) on Bell Canada's average investment in Northern Telecom and the actual dividend on such investment.

On May 9, 1980, the CRTC concluded a hearing on TCTS practices and settlement procedures and on certain other matters, and issued its decision (the "Decision") on July 7, 1981. The Decision orders the three TCTS members directly subject to the jurisdiction of the CRTC (Bell Canada, British Columbia Telephone Company and Telesat) to seek to renegotiate with the other provincially owned and/or regulated members of TCTS certain aspects of the current TCTS plan governing the settlement, apportionment and distribution of revenues from services classified by TCTS as TransCanada services. The above three companies reported to the CRTC on January 7, 1982 that, as of that date, most of the other members of TCTS had agreed to commence negotiations. If the changes contemplated by the CRTC in ordering such negotiations were to be implemented, it would be less attractive for certain TCTS members to offer in their operating territories certain competitive services that are designed to be national in scope (particularly in the field of data communications), thereby weakening the competitive position of all TCTS members, including Bell Canada, with regard to such national services. The Decision, as subsequently varied by the Government of Canada, also disallowed *inter alia* certain aspects of the proposed general tariff for satellite offerings filed by Telesat as offering an undue advantage to TCTS members. Telesat filed on January 15, 1982, revised tariffs which require Telesat to offer satellite channels directly to certain end-users, namely broadcasters and cable operators, rather than solely through regulated telecommunications common carriers, as was formerly the case.

The rates of Bell Canada's subsidiary and associated telephone companies are subject to regulation by the provincial regulatory authorities in the province in which such companies operate.

Competition

The Company does not have exclusive franchises to furnish its regulated telecommunications services. However, no other company offers public switched network telephone service (local and long distance) in the Company's service area.

CNCP Telecommunications ("CNCP"), a partnership comprised of the respective telecommunications divisions of Canadian Pacific Limited ("CP") and Canadian National Railway Company ("CN"), is a major competitor to Bell Canada in private line and data telecommunications services. On June 14, 1976, CP, subsequently joined by CN, filed with the CRTC an application for orders requiring Bell Canada to provide for connection of its telephone system and that of CP Telecommunications and requiring Bell Canada to afford reasonable facilities for interchange and forwarding of telecommunications traffic between the systems of Bell Canada and CP Telecommunications. The CRTC's decision was issued on May 17, 1979 and ordered Bell Canada to provide access to its public switched telephone network for data communications and certain restricted types of voice communications, subject to specific terms and conditions and at approved rates. The CRTC also concluded that it is necessary in the public interest to protect Bell Canada's long distance service and Wide Area Telephone Service ("WATS") from direct competition

and that CNCP should not be permitted to offer the equivalent of public long distance service. The May 17, 1979 decision has not had a significant impact on Bell Canada's financial results.

In addition to CNCP, some companies operate telecommunications systems providing themselves with telecommunications services, mainly private line, similar to those offered by the Company; the Company does not believe that the aggregate volume of such systems is material.

On November 13, 1979, Bell Canada filed an application for a determination by the CRTC as to whether or not it would be in the public interest to authorize the connection to its facilities of terminal equipment certified by the Department of Communications of Canada (the "DOC") as complying with standards specified by Bell Canada and approved in a tariff filed by Bell Canada with the CRTC. Previously, under applicable terminal tariffs, Bell Canada subscribers had only been permitted to connect to Bell Canada's facilities certain types of terminal equipment which had been certified by the DOC and DOC certification had been confined to "passive" terminals, such as automatic answering units, that did not send routing signals to the telephone network. Bell Canada also prescribed interim requirements which, if approved by the CRTC, would have allowed for a limited degree of customer-provided terminal equipment. The application stated that any need for additional revenues would have to be obtained by means of increased rates in other areas.

On August 5, 1980, the CRTC disallowed Bell Canada's interim requirements and prescribed new interim requirements which, subject only to specified technical standards being met, granted the right to Bell Canada subscribers, with certain exceptions, to connect customer-provided terminal equipment to Bell Canada's facilities. The CRTC prescribed requirements provide in general that such equipment may be connected if a special agreement in the prescribed form has been completed by the subscriber and if a professional engineer has attested that the equipment meets the technical standards prescribed by the CRTC.

As a result of the interim decision, Bell Canada has experienced increased competition in the provision of terminal equipment in its operating territory. However, while some revenue losses have been incurred, particularly in respect of business and residence auxiliary services and residence extensions, to date the interim decision has not had a material impact on Bell Canada's financial results. In its most recent decision on Bell Canada's request for a general increase in rates dated September 28, 1981, the CRTC acknowledged that the interim terminal attachment decision would result in some revenue losses to Bell Canada and took an estimate of such losses into account in establishing Bell Canada's revenue requirement for the purposes of the decision.

The terms of the interim decision are subject to change in the final decision. Hearings on the main application were completed on December 11, 1981. Final argument and rebuttal are scheduled to be filed by February 1, 1982.

In January 1977, Bell Canada was informed that the Director of Investigation and Research appointed under the Combines Investigation Act (Canada) had submitted a statement of material to the Restrictive Trade Practices Commission (the "RTPC") suggesting that the public interest might best be served by dissolving Bell Canada's ownership ties with Northern Telecom. During the course of the public hearings on this matter, which commenced on June 15, 1977, the RTPC indicated that, in addition to divestiture, it considers itself free to make recommendations relating to the manufacture, production, distribution, purchase, supply and sale of communications systems, communications equipment and related products. During the hearings the RTPC has heard evidence and arguments on the issue of terminal attachment (i.e. the connection to Bell Canada's facilities of customer-provided terminal equipment) and the RTPC issued to the Minister of Consumer and Corporate Affairs of Canada on September 10, 1981 a report on this first phase of the inquiry. The report which the Minister made public on October 9, 1981, recommends that customers of Canadian telecommunications carriers (including Bell Canada) be able to own the terminal equipment attached to the telecommunications networks of such carriers and favours an increased number of suppliers from which such customers could obtain such equipment. In the view of the RTPC, Bell Canada would be free to sell or rent terminal equipment (which would include equipment manufactured by Northern Telecom) through an arm's length subsidiary whose activities, costs and revenues would fall outside regulation. The report proposes a transitional period of approximately ten years to allow both the carriers and their customers to adjust to the deregulation of the distribution of terminal equipment. Following the transitional period the sale and rental of terminal equipment would be completely unregulated.

In the second phase of the hearings, completed in November 1981, the Director of Investigation and Research, who had earlier recommended that Bell Canada divest itself of Northern Telecom, instead argued that, as the preferred alternative, Bell Canada be required to purchase all goods and services through competitive bidding from Northern Telecom and other suppliers. The RTPC's final report, dealing with the issues of vertical integration and

equipment procurement, is expected to be issued in 1982. The governing statute, the Combines Investigation Act (Canada), does not specify what action, if any, the Minister may take upon receipt of the RTPC's reports.

Manufacturing operations

Northern Telecom is the largest telecommunications equipment manufacturer in Canada, and is the second largest manufacturer in North America of such equipment sold in North America. Northern Telecom sells to most segments of the Canadian telephone operating company market and has a major portion of such market for the types of products manufactured by it. Other major telecommunications equipment manufacturers, including subsidiaries of British Columbia Telephone Company, International Telephone and Telegraph Corporation ("ITT") and Siemens AG, which manufacture such equipment in Canada, as well as specialized manufacturers, such as Mitel Corporation, compete for sales to all Canadian telephone operating companies including Bell Canada. In 1980 and 1979 about 61% and 56% respectively, of Northern Telecom's consolidated telecommunications equipment manufacturing sales were to purchasers other than Bell Canada, its telephone subsidiary and associated companies. For the same periods, approximately 38% and 35%, respectively, of such consolidated sales of Northern Telecom were to customers in the United States and 4% and 3%, respectively, were to customers outside Canada and the United States. The telecommunications equipment business accounted in 1980 for 85.2% of consolidated revenues of Northern Telecom.

Telecommunications products

Northern Telecom designs, develops, manufactures and sells central office switching equipment, subscriber apparatus and business communications systems, transmission equipment and wire, cable and outside plant products.

Switching equipment is used in telephone exchanges to connect both local and long-distance calls. Northern Telecom's latest generation of switching equipment is its Digital Multiplex System ("DMS"*) family of electronic switching systems, which uses computer-stored-program control techniques and advanced electronic circuitry. DMS systems includes the DMS-1, a subscriber carrier system and remote switch and the DMS-10, a digital switching system with a capacity of over 6,000 lines, both introduced in 1977. The DMS family, consisting of the DMS-100 local switch, the DMS-200 toll switch, the DMS-100/200 local/toll switch and the DMS-300 international gateway switch was introduced during 1978 and 1979. DMS-100 and 200 have capacities of up to 100,000 lines and 60,000 long-distance circuits, respectively. The DMS-250, a digital tandem switching system for use by specialized common carriers, has a 30,000 trunk capacity and was introduced in 1981.

Subscriber apparatus is the equipment used on the subscriber's premises and consists mainly of telephone sets and peripheral devices such as automatic repertory dialers and handsfree speaker units. Northern Telecom manufactures dial telephones, key telephone sets, decorator telephones, multiline station equipment, single-slot coin telephones, speaker units and conference modular units.

Displayphone* integrates conventional voice communications with the ability, for example, to input or access information in data banks and display it on a video screen. Controlled market trials of the Displayphone* were carried out in 1981 in Canada and the United States and product introduction is expected in the first half of 1982.

Business communications equipment manufactured by Northern Telecom includes data networks, key telephone systems and PBX systems. Products include: SL-1*, a digital PBX for the business communications systems market; SL-10*, a packet switching system; SL-100* a larger digital PBX; the Electronic Switched Network which uses the SL-1* or SL-100* system and provides networking capabilities; and for the small business market, VANTAGE 12*, an electronic key telephone system.

Transmission equipment consists of a variety of electronic products used to carry telecommunications traffic, voice and data, between locations, such as a house and a central office, central offices within a city, locations in two different cities, or across a continent. Northern Telecom manufactures all four major categories of transmission equipment: multiplex, line carrier (including optical fiber systems and a range of compatible components), microwave radio and line conditioning equipment. Products include the DRS-8*, a digital microwave radio system; the FD-1, FD-2 and FD-3 fiber optic cable transmission systems; the DE-4, a digital PCM (pulse code modulation) channel bank; and the VF 300 line, a broad range of products used primarily to provide connections between terminal equipment and transmission facilities.

---

*Denotes Trademark

Other telecommunications equipment products of Northern Telecom and its subsidiaries include communications wire and cable, maintenance and test equipment and outside plant equipment including terminals, closures and protectors.

Markets and competition

Canada

The primary market in Canada for telecommunications equipment consists of telephone operating companies. During the twelve months ended December 31, 1980, the number of telephones owned and operated by Canadian telephone companies increased by about 732,000 telephones, of which 47% were owned and operated by the Company. In the five year period ended December 31, 1980, the estimated number of telephones in Canada, owned and operated by telephone companies, increased from about 13.9 million to about 16.6 million.

Northern Telecom's largest customer for telecommunications products is Bell Canada. The Company and associated companies own and operate approximately 66% of all telephones owned and operated by telephone companies in Canada. The remaining Canadian market consists mainly of provincially or municipally owned telephone operating companies in Manitoba, Saskatchewan and Alberta and subsidiaries of General Telephone & Electronics Corporation ("GTE") operating in British Columbia and in parts of Québec.

United States

Most of Northern Telecom's full line of telecommunications products marketed in the United States is manufactured there.

Northern Telecom's telecommunications equipment market in the United States includes the telephone operating company segment comprising American Telephone and Telegraph Company with its subsidiary operating companies ("AT&T") as well as those telephone operating companies which are independent of AT&T. In addition, Northern Telecom markets a full line of subscriber apparatus and business communications systems, directly and through distributors, in the U.S. interconnect market, which consists of end-users (principally large business concerns and institutions) who obtain their office communications systems from other than telephone operating companies as well as to specialized telecommunications common carriers.

In the United States, the largest manufacturer of telecommunications equipment is Western Electric Company, Incorporated ("Western Electric"), a subsidiary of AT&T, which to date has sold almost exclusively to AT&T and to the United States Government and military. Competitors for the remainder of the telephone operating company market include GTE Automatic Electric Incorporated (a subsidiary of GTE), ITT North Electric Co. (a subsidiary of ITT), other manufacturing affiliates of ITT, Stromberg-Carlson Corporation (a subsidiary of General Dynamics Corporation), subsidiaries of large Japanese and European manufacturers, as well as many specialized manufacturers, such as Rolm Corporation.

On January 8, 1982 the U.S. Department of Justice announced that it had reached agreement with AT&T on the terms of a modification of the 1956 AT&T Consent Decree. Under the modified Decree, AT&T will undertake an 18 month reorganization, after which its local Bell operating companies providing local exchange telephone services will be divested by AT&T. The modified Decree forbids the operating companies from discriminating against AT&T's competitors with respect to procurement, interconnection of equipment or services, the establishment and disclosure of technical specifications, and the planning of new facilities and services. Under the modified Decree, AT&T will retain its ownership of Western Electric and Bell Telephone Laboratories, as well as a nationwide intercity network composed of its Long Lines Department and the intercity facilities of its operating companies. The effect of the modified Decree on Northern Telecom cannot be predicted at this time.

Other countries

Markets outside North America include telecommunications systems owned primarily by governments. Although the potential growth of these markets is considered higher than that in North America, access to them is more difficult because of government policies favouring purchases from traditional suppliers and the different technical requirements of the many countries involved.

Electronic office systems

The electronic office systems (''EOS'') business designs, manufactures, sells, leases and services computer terminal systems, including peripheral equipment used in the accessing, processing, storage and transmission of data. Northern Telecom entered this business in 1978 by acquiring two United States corporations, Data 100 Corporation (''Data 100'') and Sycor, Inc. (''Sycor''), manufacturers of computer terminal systems, to participate in the markets evolving from the confluence of computer and telecommunications technologies. In 1980, the EOS business experienced a significant loss, necessitating write-offs and expense provisions as described under ''Management's Discussion and Analysis of Consolidated Operating Results''.

Computer terminal systems have different applications. Distributed data entry and processing (''DDP'') systems perform certain computer functions at locations remote from a large central computer, store the resultant data and communicate such data to a large central computer at various time intervals. Northern Telecom's DDP systems include the Models 405, 435, 445, 503 and 585. The Model 585 features a new processor and Winchester disk data storage technology. The Model 503, announced in July 1981, is a micro-processor-based Desk-Top DDP system. On-line, plug-compatible terminal systems communicate interactively with central computers over telephone lines on a continuous basis. Northern Telecom has a family of on-line data display systems consisting of the Model 296C, a small cluster remote controller, and the Model 294C, a large cluster remote controller. Remote batch terminal systems and remote data entry systems provide routine high volume data entry for transmission to a central processing unit. Omniword*, a word processing package, introduced in 1981, includes a letter-quality printer and integrates data processing and word processing on Northern Telecom's Model 405, 435, 445, 503 and 585 DDP systems. IRIS*, or Intelligent Remote Input Stand, also introduced in 1981, is a desk-top unit which is attached to an IBM typewriter to convert it to a low-cost electronic mail terminal with word processing capabilities.

The principal users of the systems manufactured and marketed are large and medium-sized industrial and financial firms, as well as universities and government agencies. Northern Telecom sells, leases and services its products in the United States and Canada principally through its own marketing and field service staff. Outside North America it sells, leases and services its products through its own marketing and field service organization and various distributors and licensees. A substantial portion of the DDP equipment business is conducted through leasing rather than through outright sales; the majority of leases are for terms of one to three years.

Backlog

Northern Telecom's order backlog at September 30, 1981 amounted to $1.27 billion, up from $1.19 billion at the end of the second quarter of 1981 and compared with $990.6 million at September 30, 1980. Demand for telecommunications equipment products accounted for substantially all of the order backlog.

Contract and other operations

Bell Canada provides consulting services under contract to clients, principally foreign telecommunications organizations. Following the decision by the government of the Kingdom of Saudi Arabia to award a contract for the extension, modernization, operation and maintenance of the Saudi Arabian telephone system to a consortium consisting of Bell Canada, Philips of the Netherlands and L.M. Ericsson of Sweden, Bell Canada signed, on January 25, 1978, a separate five year contract, having an estimated value of 3.4 billion Saudi Riyals (currently equivalent to approximately $1.2 billion) with the Saudi Ministry, principally for the operation and maintenance of the telephone system and for the construction of certain facilities in the Kingdom. The contract, subsequently increased in size to about 3.9 billion Saudi Riyals (currently equivalent to approximately $1.4 billion), contains provisions pursuant to which it may be terminated by the Saudi Ministry in certain cases, including failure by Bell Canada to carry out its obligations thereunder or certain events of bankruptcy or insolvency. In addition, the Saudi Ministry may terminate the contract in its discretion, in which case the contract provides that Bell Canada shall be compensated fairly for any losses incurred in such respect. Bell Canada required extensive supporting services in Saudi Arabia in connection with its performance of this contract, and for this purpose has retained established business concerns in Saudi Arabia to provide such services. These concerns are being compensated by Bell Canada in amounts aggregating approximately 8% of the gross proceeds of the contract. For guarantees furnished in respect of contract operations, see note 12 of the Notes to Financial Statements.

It is hoped that it will be possible to negotiate an extension to the present contract for a further five years. At this time, there is no assurance that this may be possible.

---

*Denotes Trademark.

Tele-Direct Ltd., indirectly a wholly-owned subsidiary of Bell Canada, is engaged through subsidiary and associated companies in the sale of telephone directory advertising and the publishing and printing of white and Yellow Pages* directories for Bell Canada and other telephone companies.

Printing of directories is carried out by Ronalds-Federated Limited (''Ronalds''), a 69.6% owned subsidiary acquired in the second half of 1980 by Tele-Direct Ltd. Ronalds is also engaged in the production of packaging materials, magazines, books and a variety of other general commercial printing activities.

Bell Communications Systems Inc., a wholly-owned subsidiary of Tele-Direct Ltd., commenced operations in January 1981 to compete in terminal interconnect markets and is engaged in the sale, installation and maintenance of PBX systems, key telephone systems and ancillary equipment manufactured by Northern Telecom and others.

Research and development

The Company has a separate research and development organization, Bell-Northern Research Ltd. (''BNR''), to develop new products, making it largely self-sufficient in design and technology for telecommunications products. In 1980 and 1979, the Company's expenses for research and development aggregated about $197,000,000 and $184,000,000, respectively. Approximately $97,000,000 and $92,000,000, respectively, of these amounts were paid to BNR, which is owned 70% by Northern Telecom and 30% by Bell Canada.

BNR is the largest private industrial research and development organization in Canada. It operates research and development laboratories and conducts a major part of the Company's research activities, including research, design, development, long-range planning and systems engineering in all phases of telecommunications. A United States subsidiary of BNR carries out research and development activities, primarily in the field of electronic office systems, at three locations in the United States. BNR and its subsidiaries had a staff of approximately 2,900 employees at September 30, 1981, including approximately 1,800 scientists, engineers, industrial designers, graduate technologists and other professional personnel.

In addition, Northern Telecom has a patent licensing agreement with Western Electric by which Northern Telecom may use, for the life of each patent, any United States Bell System invention made prior to June 30, 1980, on which patents have been issued as at such date or are subsequently issued. Under this agreement, Western Electric has the right to use Northern Telecom's patents. The latest agreement expired on June 30, 1980 and a successor agreement is currently being negotiated.

Property

The physical properties of Bell Canada, principally used for telecommunications operations, do not lend themselves to description by character and location of principal units. At September 30, 1981, central office equipment represented 35% of Bell Canada's investment in telecommunications property; land and buildings (occupied principally by central offices) represented 8%; telecommunications instruments and related wiring and equipment, including private branch exchanges, substantially all of which are on the premises of customers, represented 19%; connecting lines not on customers' premises, the majority of which are adjacent to or under public roads, highways and streets, and the remainder, on or under private property, represented 30%; plant under construction, material and supplies, work equipment and office furniture comprised the remaining 8%. The physical properties of Bell Canada are subject to liens created by a Trust Indenture and Mortgage dated as of March 1, 1925, and indentures supplemental thereto.

The physical properties of Bell Canada's telephone subsidiaries are represented by the same kind of assets as those of Bell Canada. The physical properties of Newfoundland Telephone Company Limited and Télébec Ltée are subject to fixed and specific first mortgages and charges securing their respective debt obligations.

At September 30, 1981, Northern Telecom occupied facilities containing 10.4 million square feet, of which 63% was situated in Canada and 35% in the United States. The proportion of space devoted to plant, repair and warehouse facilities was approximately 76%, with the remainder devoted to other uses. Leased property accounted for 47% of the total facilities occupied.

---

*Denotes Trademark.

Employee relations

At September 30, 1981, Bell Canada had approximately 59,200 employees. Most of the 43,100 non-management personnel are represented by two unions: 19,100 employees are represented by the Canadian Telephone Employees' Association (''CTEA'') of which 18,500 are clerical and associated personnel and 600 are sales personnel; 22,700 employees are represented by the Communications Workers of Canada (''CWC'') of which 15,800 are craft and services employees and 6,900 are operator services employees (principally telephone operators) and dining service employees.

On December 17, 1981, a new two-year contract expiring on December 16, 1983 was signed with the CTEA representing the clerical and associated personnel. The contract covering the sales personnel expired on November 30, 1981; negotiations with the CTEA commenced on September 10, 1981, and are continuing.

A three-year contract with the CWC representing the craft and services employees, expired on November 30, 1981; a three-year contract with the same union, but covering the operator services and dining service employees, expired on November 24, 1981; negotiations with the CWC commenced on September 3, 1981, and are continuing.

At September 30, 1981, Northern Telecom and its subsidiaries employed approximately 35,100 persons, 20,800 in Canada, 12,300 in the United States and the balance outside North America. Northern Telecom's principal labour contracts are in Canada and cover appoximately 59% of Northern Telecom's Canadian employees. Six of the 23 labor contracts covering about 84% of the unionized workforce in Canada will expire in February 1982. Negotiations are currently in progress. Six other contracts covering an additional 2% of the workforce will expire during the remainder of 1982. At January 27, 1982, 11 other contracts covering the remaining 14% of the unionized workforce had expired and were under negotiation. Labour contracts in the United States cover approximately 11% of Northern Telecom's United States employees and no major United States contracts expire in 1982.

At September 30, 1981, the other subsidiaries of Bell Canada had approximately 7,500 employees of whom approximately 51% were unionized.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED OPERATING RESULTS

Consolidated operating results of Bell Canada and subsidiary companies for the nine months ended September 30, 1981 and 1980 and the five years ended December 31, 1980 are presented in the audited consolidated income statement included on page 30. Substantial variations in these results for the nine months ended September 30, 1981 as compared to the same period of 1980 and for the fiscal year 1980 as compared to 1979 and 1979 as compared to 1978 are explained below.

First nine months of 1981 versus first nine months of 1980

Telecommunications operations

Operating revenues increased by $489.4 million or 20.1% in the first nine months of 1981 over 1980. The improvement during the first nine months of 1981 resulted from an increase in revenues of approximately $235 million, attributable to Bell Canada's rate increases which became effective August 17, 1980, together with an increase in demand for telecommunications services.

Operating expenses increased by $337.6 million (18.4%), in the nine months ended September 30, 1981, as compared to the same period of 1980. Slightly more than one half of the increase in operating expenses was attributable to higher wages and other employee-related costs. Increased depreciation charges account for about 14% of the increase in operating expenses, while approximately 9% was due to taxes other than income taxes. The expenses for other goods and services, which increased as a result of growth and inflationary pressures, are responsible for the remainder of the increase.

Manufacturing operations

Sales of manufactured products for the first nine months of 1981 increased by $337.9 million (22.6%) compared with the same period of 1980. Telecommunications equipment sales continued to increase in the first nine months of 1981 as compared with the 1980 period, mainly as the result of increased shipments of the DMS-100 family of digital central office switching systems and, to a lesser extent, transmission products.

Revenues from EOS showed a slight improvement in the third quarter of 1981 as compared with the third quarter of 1980. EOS revenues for the first nine months of 1981 were approximately the same as those reported in the 1980 period.

Cost of sales for the nine months ended September 30, 1981 represented 72.2% of sales compared to 73.4%, for the same period in 1980. This reflects the improvement in profit margin in sales of digital switching equipment, but the profit margin from that product is still below those of other telecommunications equipment product lines.

During the first nine months of 1981, research and development ("R&D") expenses were $124.6 million, an increase of 18.1% compared to the same period of 1980. The R&D expenses represent 6.8% of sales for the nine months ended September 30, 1981 compared to 7.1% for the same period of 1980. Selling, general, administrative and other expenses, excluding R&D, amounted to $253.7 million (13.8% of sales) during the first nine months of 1981, compared to $233.8 million (15.6% of sales) during the same period of 1980; the decline in 1981 percentages compared with 1980, results mainly from improved control over selling, general and administrative expenses.

Northern Telecom's contribution to consolidated income was adversely affected by continued losses in its EOS business in the first nine months of 1981; however, these losses, which are calculated after taking into account an allocation of general corporate costs, were at a sharply reduced level compared with the comparable period in 1980. Northern Telecom anticipated that its EOS business would incur a loss on such basis for the year 1981, as steps continued to be implemented to minimize operating expenses.

Contract and other operations

Net revenues for the first nine months of 1981 increased by $22.6 million, compared with the same period of 1980. The increase during the nine months is mainly attributable to the results of a subsidiary in the printing business acquired by purchase in the third quarter of 1980, and higher contract operations revenues generated during the third quarter of 1981.

Interest charges

Total interest charges increased by $65.9 million during the nine months ended September 30, 1981 over the same period in 1980. The increase reflects additional long term debt issued in the second half of 1980 and in the first part of 1981.

Net income

For the nine months ended September 30, 1981 the consolidated net income was $377.0 million compared to $271.5 million for the same period of 1980. The increase in net income for the nine months ended September 30, 1981 compared to the same period of 1980 was due to the increase in net revenues — Telecommunications operations and Contract and other operations and the improved performance of Northern Telecom, especially during the second and third quarters of 1981.

1980 versus 1979 and 1979 versus 1978

Telecommunications operations

In 1980, operating revenues increased by 13.7% to $3,366.2 million while operating expenses rose by 16.2% to $2,497.6 million. In 1979, the increase in revenues was 13% and the increase in operating expenses was 15.2%. An increase in Bell Canada's rates, made effective August 17, 1980, produced an increase in operating revenues estimated at $140 million in that year and generated approximately $376 million in operating revenues in 1981. Bell Canada's previous rate increase, granted in August 1978, is estimated to have generated revenues of $89 million in 1978 and $247 million in 1979.

In 1980, 741 million long distance messages were handled, 7.8% more than in 1979. The increase in 1979 over 1978 was 6.9%. The total number of telephones in service at year-end 1980 was 10 million, including 3.7 million extensions. This marked an increase of 3.8% over 1979 for total telephones, excluding extensions, and 3.3% for extensions. The corresponding increases for 1979 over 1978 were 2.8% and 4.3%.

Wages, salaries and related expenses together with depreciation charges, all of which are subject to inflationary pressures, are the major components of operating expense in telecommunications operations. During the last three years they have accounted for the major part of year-over-year variances in telecommunications operating expenses. Depreciation charges have increased primarily as a result of new capital investments and the increased cost of new plant and equipment.

Manufacturing operations

Sales of manufactured products increased in 1980 to $2,018.5 million from $1,864.1 million in 1979 and $1,470 million in 1978. The 1980 increase reflects a higher level of sales of telecommunications equipment, but this was offset in part by a decline of $90.8 million in revenues from the EOS business.

In 1979, approximately $200 million of the $394.1 million net increase in sales was attributable to the inclusion for the full year of acquisitions made during 1978, while the balance was largely due to increased demand in the United States for Northern Telecom's digital communications systems. Increases in Canadian sales for 1979 were offset by the effect of discontinuance, as of December 31, 1978, of the Canadian electrical and electronic products distribution business conducted by two of Northern Telecom's subsidiaries, Nedco Ltd. and Zentronics Ltd., which had recorded sales of $162.8 million in 1978.

Most of the growth in sales of telecommunications equipment in 1980 occurred in sales of central office telephone switching systems, notably the DMS family of switches. Production and shipments of these switches to customers throughout the United States and Canada increased from $36 million in 1978 to $126.9 million in 1979 and $268.5 million in 1980.

Sales of subscriber apparatus and business communications systems rose to $618.6 million in 1980 from $524.7 million in 1979. This growth is attributable to increased sales of the SL-1 digital business communications system and a number of other products which have been introduced by Northern Telecom during the past few years. Sales of transmission products were also up in 1980, to $277.5 million from $227.3 million in 1979.

Northern Telecom's EOS business was formed in 1978 by the acquisition of Sycor and Data 100. During 1980, revenues from this activity declined sharply, to $259 million from $349.8 million in 1979. This revenue decline was due in part to Northern Telecom's decision, in the second quarter of 1980, to discontinue sales to third parties of equipment which is on lease to customers on operating leases. Such sales to third parties had been made by Sycor and Data 100 prior to their acquisition by Northern Telecom. The decision to discontinue third-party lease sales was made to permit an increase in Northern Telecom's lease base in anticipation of potentially greater revenues and earnings at the sacrifice of the immediate cash flow and short-term profits. However, during the second half of 1980, revenues generated from the lease base continued to decline.

The problems encountered in integrating the businesses formerly conducted by Data 100 and Sycor contributed significantly to the decline in EOS revenues, including revenues from the lease base. Measures were taken to restructure the EOS business, streamline its organization and improve its product lines. In particular, these measures included the closing of two manufacturing plants and the movement of production lines of key products to more efficient facilities. These actions disrupted the production of new systems and the refurbishing of equipment in the lease base and thus brought about a further deterioration in the business. In 1981, Northern Telecom introduced a number of new products and enhancements of existing product lines for the EOS market.

Gross margins of the manufacturing operations declined to 24.9% in 1980, from 31.9% in 1979 and 32.1% in 1978. Selling, general and administrative expenses rose substantially in 1980, to $341.4 million from $280 million in 1979 and $228.9 million in 1978. Contributing to the drop in margins in 1980 were costs arising from expansion of Northern Telecom's manufacturing capacity and from bringing on stream production of new telecommunications products, especially the new DMS digital switching systems. In addition, there were the costs associated with the plant closings referred to above, including appropriate provision for the termination of employment of those people affected, for possible equipment repurchase, for uncollectible receivables and for inventory write-downs.

Other expenses, mainly for R&D related to manufacturing operations, were $140.9 million in 1980, compared to $132.6 million in 1979 and $97.8 million in 1978. The major factor in Northern Telecom's current R&D spending is development work on its digital switching and transmission products.

Northern Telecom has recorded tax benefits of $32.6 million on a portion of the losses incurred in 1980 in its United States operations. In the opinion of management, sufficient taxable income will be earned in 1981 to make use of these benefits in that year. An additional $150 million of losses in U.S. and other operations, primarily incurred in 1980, is available to offset taxes payable in future periods, provided sufficient taxable income is earned.

Extraordinary item

Due to the deterioration in 1980 of its EOS business, Northern Telecom recorded an extraordinary loss of $163.8 million in 1980. This write-off consisted of approximately $106 million of unamortized goodwill and technology investments, and approximately $57 million relating to the discontinuance of certain elements of the EOS business.

As owner of 54.7% of Northern Telecom, as at December 31, 1980, Bell Canada's share of this loss on consolidation was $90 million, equivalent to $0.55 per Bell Canada common share. Under United States generally accepted accounting principles, the above write-off would not be reported as an extraordinary item.

Contract and other operations

Most of the increases recorded in net revenues — contract and other operations for 1980 and 1979 are due to generally higher levels of activity in those years, associated particularly with the Saudi Arabian contract. Also, the 1980 figures reflect the results of a subsidiary in the printing business, from the date of its acquisition in the third quarter of 1980.

Net income

Consolidated income before extraordinary items was $363.7 million or $2.00 per common share in 1980. This compares with $433.2 million ($2.64 per share) in 1979 and $370.6 million ($2.49 per share) in 1978. The decline in 1980 as compared to 1979 resulted mainly from difficulties encountered in Northern Telecom's operations, particularly in the EOS sector of its business.

In 1979, Northern Telecom's contribution to consolidated income was $64.8 million or $0.42 per common share; in 1980, however, Northern Telecom's results reduced consolidated income before extraordinary items by $11.9 million ($0.07 per common share).

After taking into account the extraordinary loss of $90 million ($0.55 per common share) related to write-offs by Northern Telecom in 1980, Bell Canada's consolidated net income was reduced to $273.7 million or $1.45 per common share.

MANAGEMENT

Directors

At December 31, 1981, the directors of Bell Canada, who are elected annually and hold office until the next Annual General Meeting or until their successors are elected or appointed, were as follows:

Name and municipality of residence	Principal occupation
†Marcel Bélanger, O.C., C.A. Québec, Québec	President, Gagnon et Bélanger Inc. (management consultants)
George Allan Burton, D.S.O., E.D. Milton, Ontario	Company Director
*Albert Jean de Grandpré, O.C., Q.C. Outremont, Québec	Chairman of the Board and Chief Executive Officer, Bell Canada
James Douglas Gibson, O.B.E. Toronto, Ontario	Chairman of the Board of Canadian Reinsurance Company and of Canadian Reassurance Company
Henry Clifford Hatch Windsor, Ontario	Chairman of the Board, Hiram Walker Resources Ltd. (producer of distilled spirits, gas and oil)
*James Winslow Kerr Toronto, Ontario	Consultant to and Director of TransCanada PipeLines Limited (natural gas transmission)
*†Paul Henri Leman, O.C. Outremont, Québec	Company Director
*Walter Frederick Light Toronto, Ontario	President and Chief Executive Officer, Northern Telecom Limited (telecommunications equipment manufacturer)
Helen Lavina Margison Toronto, Ontario	Company Director
†Edward Neil McKelvey, Q.C. Saint John, New Brunswick	Partner, McKelvey, Macaulay, Machum (barristers and solicitors)
*†John Henderson Moore Lambeth, Ontario	Chairman, Executive Committee of the Board of Directors, London Life Insurance Company
Joseph Dean Muncaster Toronto, Ontario	President and Chief Executive Officer, Canadian Tire Corporation, Limited (automotive, hardware and sporting goods distributor)
*Gérard Plourde, O.C. Montréal, Québec	Chairman of the Board, U A P Inc. (automotive parts distributor)
Robert John Richardson, Sc.D. Greenville, Delaware, U.S.A.	Executive Vice-President, E.I. du Pont de Nemours and Company (chemical manufacturer)
John Parmenter Robarts, P.C., C.C., Q.C. Toronto, Ontario	Partner, Stikeman, Elliott, Robarts & Bowman (barristers and solicitors)
*Harold Rocke Robertson, C.C. M.D. Mountain, Ontario	Company Director
†Lucien Gilbert Rolland Montréal, Québec	President and Chief Executive Officer, Rolland inc. (paper manufacturer)
*James Carden Thackray Toronto, Ontario	President, Bell Canada
Orland Tropea Pointe Claire, Québec	Vice-Chairman, Bell Canada
†Louise Brais Vaillancourt Outremont, Québec	President, Fondation Armand-Frappier (involved in funding research programs)

*Member of the Executive Committee.
†Member of the Audit Committee.

All of the above-named directors have held their present positions or other executive positions with the same or associated firms or organizations during the past five years, except as follows: Mr. M. Bélanger was a partner in the accounting firm of Bélanger, Dallaire, Gagnon & Associés prior to February 1979; Mr. G. A. Burton was Chairman of the Board and Chief Executive Officer of Simpsons Limited prior to December 1979; Mr. J. D. Gibson was

Chairman of the Board of The Consumers' Gas Company prior to April 1980; Mr. P. H. Leman was Vice-Chairman of the Board of Alcan Aluminium Limited prior to July 1979; Mr. J. H. Moore was Chairman of the Board of John Labatt Limited prior to January 1981; Mrs. H. L. Margison was President of a private investment firm prior to January 1981. Mrs. L. Brais Vaillancourt has held her present position since March 1981; she was President of La Corporation de l'Hôpital Marie Enfant prior to October 1977.

Officers

At December 31, 1981, the officers of Bell Canada were as follows:

Name and municipality of residence	Offices presently held
Albert Jean de Grandpré, O.C., Q.C. Outremont, Québec	Chairman of the Board and Chief Executive Officer
James Carden Thackray Toronto, Ontario	President
Orland Tropea Pointe Claire, Québec	Vice-Chairman
Joseph Victor Raymond Cyr Montréal, Québec	Executive Vice-President, Administration
Frederick Elderidge Ibey Weston, Ontario	Executive Vice-President, Ontario Region
Gordon Ellis Inns Don Mills, Ontario	Executive Vice-President, Marketing
Léonce Montambault Town of Mount Royal, Québec	Executive Vice-President, Québec Region
Paul André Aubin Candiac, Québec	Vice-President, Customer Services (Québec Region)
Joseph Robert Brûlé Montréal, Québec	Vice-President, Operations Development (Québec Region)
Robert Wilfred Crowley Mississauga, Ontario	Vice-President, Customer Services (Ontario Region)
Donald James Cruickshank Ottawa, Ontario	Vice-President, Public and Environmental Affairs
Douglas Wilfred Delaney Don Mills, Ontario	Vice-President, Marketing (Ontario Region)
Claude Duhamel Montréal, Québec	Vice-President, Administration (Québec Region)
John Hugh Farrell Ottawa, Ontario	Vice-President, Computer Communications
George Leslie Henthorn Beaurepaire, Québec	Vice-President & Comptroller
William Brian Hewat Ottawa, Ontario	Vice-President, Marketing and Development
Robert Kearney Toronto, Ontario	Vice-President, Systems
John Arthur McCutcheon Ottawa, Ontario	Vice-President, Personnel
Andrew Maurice McMahon Ottawa, Ontario	Vice-President, Engineering
Harry Pilkington Toronto, Ontario	Vice-President, Special Assignment (Ontario Region)
Hubert August Roth Ilderton, Ontario	Vice-President, Network Services (Ontario Region)
Claude St-Onge Sillery, Québec	Vice-President, Network Services (Québec Region)

Name and municipality of residence	Offices presently held
Ernest Erle Saunders, Q.C. Westmount, Québec	Vice-President, Law and Corporate Affairs
John Edward Sinclair Ottawa, Ontario	Vice-President, Regulatory Matters
Richard Douglas Sloane Ottawa, Ontario	Vice-President, Operations Performance
James Stuart Spalding Westmount, Québec	Vice-President & Treasurer
John Floyd Stinson Toronto, Ontario	Vice-President, Operations Development (Ontario Region)
Bruce Henry Tavner Mississauga, Ontario	Vice-President, International
Robert Neil Washburn Mississauga, Ontario	Vice-President, Administration (Ontario Region)
Guy Houle Saint-Bruno-de-Montarville, Québec	Corporate Secretary

All of the officers of Bell Canada have been employed in their present positions or other senior positions with Bell Canada or one or more of its subsidiary or associated companies for five years or more, except Mr. D.J. Cruickshank who was, prior to his appointment with Bell Canada on January 1, 1981, President of the Canadian Telecommunications Carriers Association and Mr. E.E. Saunders who was, prior to his appointment with Bell Canada on February 1, 1978, a senior partner in the law firm of O'Brien, Hall, Saunders.

Remuneration of directors and senior officers

The following table shows the aggregate remuneration paid or payable in 1980 by Bell Canada and its subsidiaries to all directors of Bell Canada, as directors, and to officers of Bell Canada, as officers of Bell Canada. No officer of Bell Canada was paid remuneration in the capacity of an employee or officer of a Bell Canada subsidiary in 1980.

	Nature of remuneration				
	Aggregate remuneration		Estimated pension benefits	Other benefits	
(1) Directors: number 21					
(A) From Bell Canada	$ 303,000		—	—	
(B) From the following partially-owned subsidiaries:					
Northern Telecom Limited	118,000		—	—	
Northern Telecom Inc.	39,000		—	—	
	$ 460,000	(a)	—	—	
(2) Five highest compensated senior officers	$1,062,000	(b)	(c)	$275,000	(d)
(3) All officers receiving over $50,000: number 33 (including officers referred to in item (2) above)	$3,899,000	(a)	(c)	$275,000	(d)

Notes: (a) Based on the amounts required to be reported as income under the Income Tax Act (Canada), except that bonuses are included for the year they are awarded to Bell Canada officers and expensed for financial reporting purposes.

(b) Means amounts referred to in Note (a) plus the value of any non-taxable benefits (other than those benefits provided to a broad category of employees on a basis which does not discriminate in favour of officers or directors) derived from Bell Canada contributions under group sickness or accident insurance plans, private health service plans, supplementary unemployment benefit plans, deferred profit sharing plans or group term life insurance policies.

(c) Bell Canada directors who are also officers of Bell Canada and all other Bell Canada officers participate in its non-contributory defined benefit plan, providing pensions based on pensionable service and the average of the best five years' pensionable earnings;

i. the amount of the contribution, payment or accrual made by Bell Canada for the year 1980 for officers, individually or as a group, is not and cannot readily be separately or individually calculated by Bell Canada's actuaries;

ii. the following table shows estimated annual pension benefits expressed in each case as a percentage of the average of the best five years' pensionable earnings, payable upon retirement on January 1, 1981 at age 65 to persons in specified earnings and service classifications:

Pensionable service	Average of pensionable earnings during best five years					
	$100,000	$200,000	$300,000	$400,000	$500,000	$600,000
20 years	28.57%	29.28%	29.52%	29.64%	29.71%	29.76%
30 years	43.57%	44.28%	44.52%	44.64%	44.71%	44.76%
40 years	58.57%	59.28%	59.52%	59.64%	59.71%	59.76%
50 years	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%

Certain percentages in the table above reflect the payment of benefits in excess of the maximum established by the Department of National Revenue of Canada, which benefits may be paid at the discretion of Bell Canada under a supplemental plan;

iii. under a supplemental plan, each officer is credited with an additional 0.5 years of pensionable service for each year of service as an officer of Bell Canada. However, in no case may an officer receive in the aggregate an annual pension benefit in excess of 70% of the average of the officer's best five years' pensionable service;

iv. in 1980, Bell Canada's contributions amounted to 14.9% of the total pensionable earnings of all plan participants.

(d) Represents the amount expensed by Bell Canada for financial reporting purposes in 1980 under special retirement plans. The aggregate amount of such payments proposed to be made in the future by Bell Canada pursuant to such plans is dependent upon decisions to be made from time to time by the Board of Directors.

EMPLOYEES' SAVINGS PLANS

Eligible employees who are enrolled in Bell Canada's Employees' Savings Plan (1966), as in effect from July 1, 1966 to June 30, 1970, are entitled to assign dividends from shares acquired under such plan or former plans towards the purchase of common shares of Bell Canada at a subscription price of 85 percent of the lesser of the average market price during the three-month period prior to the commencement of the payment period (as defined in the plan) or during the last three months of the payment period.

Bell Canada introduced, effective July 1, 1970, the Employees' Savings Plan (1970) (which is not an option to purchase securities), under which employees are eligible to make a basic contribution of 2%, 4% or 6% of their basic wages with provision for an additional 2% or 4% supplementary contribution. Bell Canada and the participating subsidiaries contribute to the plan at the rate of $1.00 for every $3.00 of an employee's basic contribution. National Trust Company, Limited, as trustee, purchases common shares on the open market throughout each month of the plan year and allocates them to participating employees; these common shares are generally distributed to participants following the end of each plan year which coincides with the calendar year.

SHAREHOLDER DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

Bell Canada's Shareholder Dividend Reinvestment and Stock Purchase Plan (the "Plan") provides a means for holders of record of Bell Canada common shares to invest cash dividends and optional cash payments in new common shares of Bell Canada. Such shares are purchased directly from Bell Canada by an Agent who acts on behalf of the participants under the Plan.

A participant may purchase new common shares of Bell Canada quarterly with all the cash dividends paid on the common shares of Bell Canada which are registered in the name of the participant. The price of common shares purchased with cash dividends on common shares is 95% of the Average Market Price (as defined in the Plan). A participant may also purchase new common shares monthly with optional cash payments up to an aggregate sum of $3,000 per quarter. Optional cash payments may consist of cash and/or all cash dividends on any series of Bell Canada preferred shares held of record by the participant and/or all interest on any series of Bell Canada bonds registered in the name of the participant and/or all interest on any series of Bell Canada debentures registered in the name of the participant. The price of common shares purchased with optional cash payments is 100% of the Average Market Price. No commissions or service charges are payable by participants in connection with purchases of common shares made under the Plan.

As of the October 16, 1981 Investment Date under the Plan, 21.5% of Bell Canada's common shareholders representing 18.5% of the outstanding common shares were participating in the Plan.

OPTIONAL STOCK DIVIDEND PROGRAM

The Bell Canada Optional Stock Dividend Program (the "Program"), provides a means for holders of record of Bell Canada common shares to acquire additional common shares by electing that dividends on all the common shares of such holders be payable by the issue of additional common shares of Bell Canada. Such shares are issued to an Agent who acts on behalf of the participants under the Program. Common shares so issued are valued at 100% of the Average Market Price (as defined in the Program). No commissions or service charges are payable by participants in connection with the acquisition of common shares under the Program.

As of the October 15, 1981 common dividend payment date, 2.0% of Bell Canada's common shareholders representing 3.0% of the outstanding common shares were participating in the Program.

PRINCIPAL HOLDERS OF SECURITIES

No person or company owned of record or, to the knowledge of Bell Canada, beneficially, directly or indirectly, more than 10% of any class of shares in the capital stock of Bell Canada, outstanding at December 31, 1981.

At December 31, 1981, all directors and senior officers of Bell Canada as a group owned, in the aggregate beneficially, directly or indirectly, less than 0.25% of any class of shares of Bell Canada or any of its subsidiaries.

TRANSFER AGENTS AND REGISTRARS

The preferred shares and the common shares of Bell Canada are transferable at the office of the Treasurer of Bell Canada in Montréal, Bell Canada's Stock Transfer Office in Toronto and at the offices of Bell Canada's Transfer Agent, The Royal Trust Company, in St. John's, Halifax, Charlottetown, Saint John, Winnipeg, Regina, Calgary and Vancouver. In Canada, the Registrar for the preferred shares and the common shares of Bell Canada is Montreal Trust Company.

The common shares of Bell Canada are also transferable at the principal office of Morgan Guaranty Trust Company of New York, New York, and at the principal office of The Royal Trust Company in London, England. The Registrars for such locations are Morgan Guaranty Trust Company of New York and Williams and Glyn's Registrars Limited, respectively.

AUDITORS

The auditors of Bell Canada are Touche Ross & Co., 1 Place Ville Marie, Montréal, Québec.

DESCRIPTION OF CAPITAL STOCK

The Charter of Bell Canada, as last amended on April 12, 1978, provides that its capital stock shall not exceed $5,000,000,000 and shall consist of shares of one or more classes, with or without par value. The issuance of capital stock is subject to the approval of the CRTC as to amount, terms and conditions. The directors of Bell Canada are authorized to make by-laws, which are subject to shareholder sanction, to create and provide for the issuance of any class or classes of shares, with or without par value, and to determine the designation and the preferred, deferred or other special rights, privileges, restrictions, conditions or limitations attaching thereto. The present authorized capital stock of Bell Canada consists of common shares of the par value of $8⅓ each and of preferred shares having such par values as are provided in the by-laws creating them.

Common shares

Each common share of Bell Canada is equal to every other common share and all common shares participate equally in any liquidation and distribution of assets. Subject to the rights of the preferred shares, the holders of common shares are entitled to receive such dividends payable in money, property, or by the issue of fully paid shares of Bell Canada, as may be declared by the Board of Directors. Common shareholders are entitled to one vote for each share held of record on all matters voted on by shareholders. There are no cumulative voting rights in electing directors and holders of common shares have no preemptive, redemption or conversion rights. The outstanding common shares of Bell Canada are fully paid and non-assessable. Other than the preferred shares, there are no provisions in any contract to which Bell Canada is a party restricting the payment of cash dividends on or affecting the voting rights of common shares.

Preferred shares

At present, the shareholders of Bell Canada have authorized the issuance of preferred shares to a maximum par value of $1,713,000,000. The preferred shares are subject to certain mandatory redemption provisions and to certain optional provisions of redemption and cancellation by Bell Canada, and certain series are convertible into common shares. For details of preferred shares outstanding, see note 9 of the Notes to Financial Statements.

Holders of preferred shares are entitled to one vote for each share held of record on all matters voted upon by shareholders and rank equally both as to the order of priority in payment of dividends and in the distribution of assets in the event of any liquidation, dissolution or winding-up of Bell Canada. The preferred shares rank prior to the common shares both as to dividends and distribution of assets upon liquidation. At December 31, 1981 the aggregate liquidation preference was approximately $361,619,000.

MATERIAL CONTRACTS

The material contracts entered into by Bell Canada are as follows:

(i) Bell Canada has an agreement dated November 3, 1939 (which has been amended from time to time) with Northern Telecom, under which Northern Telecom agrees, to the extent reasonably required for Bell Canada's business, to manufacture and sell materials to Bell Canada, to prepare equipment specifications and to perform installations of materials, to repair used materials returned by Bell Canada and to perform other services upon the terms and conditions therein set forth. The agreement has been amended several times with regard to the effective dates of prices payable by Bell Canada for certain materials. The latest amendment, that of September 4, 1953, provides for an annual review of prices. Under the agreement, as amended, Bell Canada has ordered from Northern Telecom for future delivery, equipment, material and supplies of all kinds required for the construction of communication lines and systems and for the operation of Bell Canada's business, the total price of which, at September 30, 1981, amounted to approximately $371,000,000 which was not then due and remained unpaid. In 1978, the CRTC enunciated pricing principles in respect to the above pricing provision which, if implemented, would for regulatory purposes, alter previous practice, and extend the scope of the pricing provision to apply to Canadian export sales and intercorporate transfers. In 1980, the CRTC granted a request by Bell Canada that it review its 1978 decision to determine if that decision should be varied or rescinded. During 1981, the CRTC asked for and received written submissions from Bell Canada and other interested parties with respect to the decision.

(ii) Bell Canada is a member of TCTS. The present TCTS agreement dated December 31, 1976 provides for the sharing of revenues from jointly furnished telecommunications services in Canada and internationally. This TCTS agreement may be cancelled by a party thereto giving written notice to the other parties of at least twelve months. The TCTS Board of Management establishes from time to time, by unanimous agreement, the bases of settlement and the method of apportionment and distribution of jointly earned revenues among the members of TCTS. The present settlement plan provides for the distribution of available revenues, firstly for the reimbursement to each member of that proportion of his expenses that are attributable to the provision of TransCanada services, and secondly for the distribution of the balance of available revenues.

(iii) Bell Canada has an agreement dated January 25, 1978, which has been amended from time to time, with the Ministry of Post, Telegraph and Telephone of the Kingdom of Saudi Arabia (see "Business of the Company — Contract and other operations").

The material contracts numbered (i) and (ii) above, or copies of such contracts, may be inspected during business hours at the office of the Corporate Secretary of Bell Canada, 1050 Beaver Hall Hill, Montréal, Québec, throughout the period that the securities are being offered and for thirty days thereafter.

In the ordinary course of its business Bell Canada enters into underwriting contracts for the purpose of raising equity and debt capital on both the private and public financial markets. The proceeds from such issues form part of the general funds of Bell Canada and are used to pay for part of Bell Canada's expenditures for the acquisition and construction of additions and improvements to its telecommunications systems and to provide additional working capital. During the two-year period ending on January 27, 1982, Bell Canada has so raised approximately $780 million of debt and $200 million of equity capital. In addition, Bell Canada's principal subsidiary, Northern Telecom, has raised approximately $406 million of long term debt in a similar way during the same period.

In addition, Bell Canada and its subsidiaries have, during the two-year period ending January 27, 1982, entered into many other contracts with a substantial number of different parties in the ordinary course of their business (including expenditures referred to under "Capital Expenditures") with a view to meeting demands made upon them for their telecommunications services. Details of such contracts have been omitted as the contracts are in the ordinary course of business carried on or intended to be carried on by the Company.

INDEX TO FINANCIAL STATEMENTS

AUDITORS' REPORT

To The Board of Directors
Bell Canada

We have examined the consolidated balance sheet of Bell Canada and the balance sheet of Bell Canada as at September 30, 1981 and 1980 and the consolidated statements of income, premium on capital stock, retained earnings and changes in financial position of Bell Canada and the statements of income, retained earnings and changes in financial position of Bell Canada for the five years ended December 31, 1980 and for the nine months ended September 30, 1981 and 1980. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion:

(a) the accompanying consolidated balance sheet and consolidated statements of income, premium on capital stock, retained earnings and changes in financial position of Bell Canada present fairly the consolidated financial position of Bell Canada at September 30, 1981 and 1980 and the results of its operations and the changes in its financial position for the five years ended December 31, 1980 and for the nine months ended September 30, 1981 and 1980,

(b) the accompanying balance sheet and statements of income, retained earnings and changes in financial position of Bell Canada present fairly the financial position of Bell Canada at September 30, 1981 and 1980 and the results of its operations and the changes in its financial position for the five years ended December 31, 1980 and for the nine months ended September 30, 1981 and 1980,

all in accordance with generally accepted accounting principles applied on a consistent basis.

Montréal, Québec
●, 1982

Chartered Accountants

BELL CANADA AND SUBSIDIARY COMPANIES

CONSOLIDATED INCOME STATEMENT
(thousands of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Telecommunications operations							
Operating revenues							
Local service	$1,028,520	$1,151,763	$1,312,734	$1,449,713	$1,625,748	$1,171,382	$1,392,607
Long distance service	918,745	1,031,553	1,223,314	1,413,937	1,624,847	1,173,653	1,419,359
Miscellaneous — net	48,240	58,339	85,670	97,917	115,612	84,913	107,407
Total operating revenues	**1,995,505**	**2,241,655**	**2,621,718**	**2,961,567**	**3,366,207**	**2,429,948**	**2,919,373**
Operating expenses	1,430,688	1,646,296	1,865,958	2,150,083	2,497,561	1,835,974	2,173,527
Net revenues — telecommunications operations	**564,817**	**595,359**	**755,760**	**811,484**	**868,646**	**593,974**	**745,846**
Manufacturing operations							
Sales (note 1)	1,073,356	1,194,728	1,469,997	1,864,160	2,018,545	1,495,652	1,833,575
Less: Cost of sales	771,742	846,312	998,569	1,269,737	1,515,369	1,097,155	1,324,032
Selling, general, administrative and other expenses	184,021	227,389	326,759	412,591	482,390	339,321	378,290
	955,763	1,073,701	1,325,328	1,682,328	1,997,759	1,436,476	1,702,322
Net revenues — manufacturing operations	**117,593**	**121,027**	**144,669**	**181,832**	**20,786**	**59,176**	**131,253**
Contract and other operations							
Operating revenues	61,179	76,781	282,640	439,012	652,332	445,858	562,390
Operating expenses	48,691	62,238	237,253	339,048	516,754	346,527	440,474
Net revenues — contract and other operations	**12,488**	**14,543**	**45,387**	**99,964**	**135,578**	**99,331**	**121,916**
Total net revenues	**694,898**	**730,929**	**945,816**	**1,093,280**	**1,025,010**	**752,481**	**999,015**
Other income							
Allowance for funds used during construction	15,559	16,193	14,087	20,722	20,206	15,179	17,416
Equity in net income of associated companies (note 2)	13,938	14,384	16,923	18,712	21,286	15,990	14,961
Miscellaneous — net	29,927	10,289	18,106	33,675	31,169	19,314	41,293
Total other income	**59,424**	**40,866**	**49,116**	**73,109**	**72,661**	**50,483**	**73,670**
Interest charges							
Interest on long term debt (note 3)	185,918	213,371	255,350	289,745	319,185	229,199	294,355
Other interest	10,378	8,454	8,127	23,054	39,483	32,083	32,841
Total interest charges	**196,296**	**221,825**	**263,477**	**312,799**	**358,668**	**261,282**	**327,196**
Income before underlisted items	**558,026**	**549,970**	**731,455**	**853,590**	**739,003**	**541,682**	**745,489**
Unrealized foreign currency losses (gains) (note 1)	(1,774)	(5,987)	259	10,685	11,253	7,787	5,584
Income before income taxes, minority interest and extraordinary items	**559,800**	**555,957**	**731,196**	**842,905**	**727,750**	**533,895**	**739,905**
Income taxes (note 3)	247,522	242,098	323,585	355,371	367,248	244,374	327,863
Income before minority interest and extraordinary items	**312,278**	**313,859**	**407,611**	**487,534**	**360,502**	**289,521**	**412,042**
Minority interest	24,894	27,651	37,049	54,348	(3,243)	17,988	43,783
Income before extraordinary items	**287,384**	**286,208**	**370,562**	**433,186**	**363,745**	**271,533**	**368,259**
Extraordinary items (note 4)	2,188	2,367	24,490	—	(90,015)	—	8,728
Net income	**$ 289,572**	**$ 288,575**	**$ 395,052**	**$ 433,186**	**$ 273,730**	**$ 271,533**	**$ 376,987**
Net income	$ 289,572	$ 288,575	$ 395,052	$ 433,186	$ 273,730	$ 271,533	$ 376,987
Dividends on preferred shares	28,847	31,534	38,702	30,521	38,243	27,689	26,867
Net income applicable to common shares	**$ 260,725**	**$ 257,041**	**$ 356,350**	**$ 402,665**	**$ 235,487**	**$ 243,844**	**$ 350,120**
Earnings per common share* (note 5)							
— before extraordinary items	$ 2.15	$ 1.99	$ 2.49	$ 2.64	$ 2.00	$ 1.51	$ 1.98
— after extraordinary items	$ 2.17	$ 2.01	$ 2.67	$ 2.64	$ 1.45	$ 1.51	$ 2.03
Assuming full dilution							
— before extraordinary items	$ 1.99	$ 1.93	$ 2.36	$ 2.55	$ 1.98	$ 1.49	$ 1.94
— after extraordinary items	$ 2.00	$ 1.95	$ 2.52	$ 2.55	$ 1.45	$ 1.49	$ 1.98
Dividends declared per common share	**$ 1.19**	**$ 1.36**	**$ 1.43**	**$ 1.55**	**$ 1.68**	**$ 1.23**	**$ 1.35**
*Based on weighted average common shares outstanding (thousands)	120,317	127,662	133,396	152,810	162,762	161,786	172,627

BELL CANADA AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
(thousands of dollars)

ASSETS

	As at September 30, 1981	1980
Telecommunications property — at cost (note 13)		
Buildings, plant and equipment	$11,581,830	$10,506,751
Less: Accumulated depreciation	3,577,024	3,197,784
	8,004,806	7,308,967
Land	88,371	83,381
Plant under construction	346,618	278,218
Material and supplies	121,058	116,366
	8,560,853	7,786,932
Manufacturing and other property — at cost (note 13)		
Buildings, plant and equipment	999,621	866,829
Less: Accumulated depreciation	442,689	369,854
	556,932	496,975
Land	24,930	23,667
	581,862	520,642
	9,142,715	8,307,574
Investments		
Associated companies and non-consolidated subsidiaries — at equity (note 1)	494,622	471,439
Other	6,048	4,898
	500,670	476,337
Current assets		
Cash and temporary cash investments — at cost (approximates market)	171,107	64,514
Accounts receivable — principally from customers (including $9,838 ($7,026 — 1980) from associated companies, and less $14,515 ($9,753 — 1980) for provision for uncollectibles)	1,170,995	1,126,598
Inventories (note 6)	610,870	584,751
Other (principally prepaid expenses)	139,365	164,508
	2,092,337	1,940,371
Other assets		
Cash and temporary cash investments held for contract operations — at cost (approximates market)	22,548	91,473
Long term receivables	29,076	35,254
Deferred charges — contract operations	32,995	57,017
— unrealized foreign currency losses, less amortization	169,994	126,902
— other	64,544	85,242
Cost of shares in subsidiaries in excess of underlying net assets, less amortization (note 1)	36,448	118,297
	355,605	514,185
Total assets	**$12,091,327**	**$11,238,467**

LIABILITIES AND SHAREHOLDERS' EQUITY

	1981	1980
Capital stock authorized (note 7)		
Common shareholders' equity		
Common shares (note 8)	$ 1,459,889	$ 1,369,356
Premium on capital stock	983,088	865,423
Contributed surplus	15,290	15,290
Retained earnings	1,272,353	1,239,423
	3,730,620	3,489,492
Convertible preferred shares (redeemable) (note 9)	263,233	370,130
Non-convertible preferred shares (redeemable) (note 9)	104,430	109,835
Minority interest in subsidiary companies		
Preferred shares	28,153	29,499
Common shares	402,312	453,285
	430,465	482,784
Long term debt (including unrealized foreign currency losses) (note 10)	4,399,907	3,943,070
Current liabilities		
Accounts payable	844,849	635,541
Advance billing for service	79,500	62,551
Dividends payable	87,505	77,635
Taxes accrued	94,381	45,581
Interest accrued	135,752	103,112
Debt due within one year (note 11)	411,520	465,315
	1,653,507	1,389,735
Deferred credits		
Income taxes	1,309,062	1,165,071
Other (note 12)	200,103	288,350
	1,509,165	1,453,421
Commitments and contingent liabilities (notes 12 and 13)		
Total liabilities and shareholders' equity	**$12,091,327**	**$11,238,467**

Approved by the Board of Directors:
(Signed) Paul Leman, Director (Signed) Marcel Bélanger, Director

BELL CANADA AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PREMIUM ON CAPITAL STOCK
(thousands of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Balance at beginning of period	**$ 441,213**	**$ 460,878**	**$ 527,143**	**$ 607,388**	**$ 807,778**	**$ 807,778**	**$ 898,098**
Premium on common shares issued during the period							
—under the Shareholder Dividend Reinvestment and Stock Purchase Plan	—	—	16,683	38,021	46,251	28,978	28,769
—under the Employees' Savings Plan (1966)	1,995	2,271	2,788	3,503	3,991	3,946	4,014
—upon exercise of warrants	348	54,656	—	—	—	—	—
—underwritten issue	—	—	—	120,703	—	—	—
—upon conversion of preferred shares	17,322	9,338	60,774	38,163	39,213	24,721	48,669
—under the Optional Stock Dividend Program	—	—	—	—	865	—	3,538
	19,665	66,265	80,245	200,390	90,320	57,645	84,990
Balance at end of period	**$ 460,878**	**$ 527,143**	**$ 607,388**	**$ 807,778**	**$ 898,098**	**$ 865,423**	**$ 983,088**

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(thousands of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Balance at beginning of period	**$ 690,656**	**$ 804,750**	**$ 882,537**	**$1,041,075**	**$1,198,384**	**$1,198,384**	**$1,155,726**
Net income	289,572	288,575	395,052	433,186	273,730	271,533	376,987
Excess of par value over cost of preferred shares purchased for cancellation (note 9)	203	66	4	37	341	154	776
	980,431	1,093,391	1,277,593	1,474,298	1,472,455	1,470,071	1,533,489
Deduct:							
Dividends —							
Preferred shares —							
$3.20 shares	1,643	935	634	384	334	253	197
$3.34 shares	2,455	1,103	645	316	246	188	151
$4.23 shares	8,454	8,385	7,352	1,474	590	482	256
$2.28 shares	11,400	11,397	11,390	5,316	2,042	1,714	788
$1.96 shares	—	—	9,060	13,478	11,145	8,648	3,372
$2.05 shares	—	—	—	—	14,569	9,389	15,392
$2.25 shares	3,530	3,414	3,321	3,253	3,092	2,327	2,226
$1.80 shares	1,365	6,300	6,300	6,300	6,225	4,688	4,485
	28,847	31,534	38,702	30,521	38,243	27,689	26,867
Common shares	143,969	175,626	193,113	240,571	274,884	199,872	234,081
	172,816	207,160	231,815	271,092	313,127	227,561	260,948
Expenses of issues of capital stock	2,865	3,694	4,703	4,822	3,602	3,087	188
	175,681	210,854	236,518	275,914	316,729	230,648	261,136
Balance at end of period	**$ 804,750**	**$ 882,537**	**$1,041,075**	**$1,198,384**	**$1,155,726**	**$1,239,423**	**$1,272,353**
Dividends per share —							
Preferred shares —							
$3.20 shares	$3.20	$3.20	$3.20	$3.20	$3.20	$2.40	$2.40
$3.34 shares	$3.34	$3.34	$3.34	$3.34	$3.34	$2.50	$2.50
$4.23 shares	$4.23	$4.23	$4.23	$4.23	$4.23	$3.17	$3.17
$2.28 shares	$2.28	$2.28	$2.28	$2.28	$2.28	$1.71	$1.71
$1.96 shares	—	—	$1.30	$1.96	$1.96	$1.47	$1.47
$2.05 shares	—	—	—	—	$1.45	$0.94	$1.54
$2.25 shares	$2.25	$2.25	$2.25	$2.25	$2.25	$1.68	$1.68
$1.80 shares	$0.39	$1.80	$1.80	$1.80	$1.80	$1.35	$1.35
Common shares	$1.19	$1.36	$1.43	$1.55	$1.68	$1.23	$1.35

BELL CANADA AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(thousands of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Source of funds							
Operations							
Income before extraordinary items	$ 287,384	$ 286,208	$ 370,562	$ 433,186	$ 363,745	$ 271,533	$ 368,259
Items not affecting funds							
Depreciation	430,241	479,915	550,058	646,970	732,320	543,369	599,403
Deferred income taxes	93,453	114,912	101,516	132,849	129,554	91,274	105,552
Allowance for funds used during construction	(15,559)	(16,193)	(14,087)	(20,722)	(20,206)	(15,179)	(17,416)
Equity earnings in non-consolidated finance subsidiaries	—	—	—	(21,473)	(58,178)	(36,071)	(48,654)
Other — net	28,365	33,924	52,656	34,020	(23,740)	1,218	12,423
Total from operations exclusive of extraordinary items	**823,884**	**898,766**	**1,060,705**	**1,204,830**	**1,123,495**	**856,144**	**1,019,567**
Extraordinary items (net of non-fund items)	2,188	2,367	24,490	—	(57,328)	—	—
Net proceeds from the sale of common shares of an associated company	—	—	—	—	—	—	34,916
Proceeds from long term debt	279,965	293,050	579,558	575,524	767,878	419,207	193,590
Issue of common shares							
— underwritten issue	—	—	—	194,109	—	—	—
— upon exercise of warrants	763	118,607	—	—	—	—	—
— under the Dividend Reinvestment and Stock Purchase Plan	—	—	30,134	64,125	83,037	51,920	53,302
— under the Optional Stock Dividend Program	—	—	—	—	1,510	—	6,326
— upon conversion of convertible preferred shares	34,655	18,952	125,820	74,044	71,064	46,586	82,420
Proceeds from issue of preferred shares	68,248	—	170,903	—	196,757	196,757	—
Proceeds from issues of shares by subsidiaries to minority shareholders	11,748	9,701	96,724	97,792	13,412	2,057	2,081
Advance payment on contract operations	—	—	190,587	—	—	—	—
Decrease in cash and temporary cash investments held for contract operations	—	—	—	42,319	—	—	43,902
Dividend from a non-consolidated finance subsidiary	—	—	—	—	—	—	59,690
Increase (decrease) in due to non-consolidated finance subsidiaries	—	—	79,421	165,957	(8,585)	(13,118)	16,439
Miscellaneous	32,418	12,689	117,138	192,423	72,744	52,388	67,200
Decrease in working capital	107,418	42,369	—	—	—	49,518	176,759
	$1,361,287	**$1,396,501**	**$2,475,480**	**$2,611,123**	**$2,263,984**	**$1,661,459**	**$1,756,192**
Disposition of funds							
Capital expenditures							
Gross capital expenditures	$ 992,686	$1,045,665	$1,183,972	$1,351,044	$1,598,203	$1,124,211	$1,179,476
Deduct: charges not requiring funds	(26,064)	(13,748)	(24,395)	(13,396)	(16,529)	(9,929)	(9,221)
Increase (decrease) in material and supplies	26,351	(2,296)	4,939	21,225	(19,486)	(12,605)	11,573
Net expenditures	**992,973**	**1,029,621**	**1,164,516**	**1,358,873**	**1,562,188**	**1,101,677**	**1,181,828**
Dividends by Bell Canada	172,816	207,160	231,815	271,092	313,127	227,561	260,948
Dividends by subsidiaries to minority shareholders	8,600	10,730	11,508	15,546	19,925	14,840	15,573
Reduction of long term debt	116,780	88,668	246,018	428,758	177,780	154,212	140,978
Acquisition of investments (less working capital acquired in 1978 of $107,427, in 1980 of $10,656 and in the nine months ended September 30, 1980 of $10,274)	34,582	34,348	189,294	2,848	25,059	25,048	1,857
Investments in non-consolidated finance subsidiaries	—	—	23,712	233,835	10,649	10,649	24,733
Conversion of preferred shares	34,684	18,975	125,848	74,047	71,065	46,588	82,420
Increase in cash and temporary cash investments held for contract operations	—	—	91,851	—	16,918	41,942	—
Deferred charges — contract operations	—	—	112,912	—	—	—	—
Miscellaneous	852	6,999	27,947	16,222	51,838	38,942	47,855
Increase in working capital	—	—	250,059	209,902	15,435	—	—
	$1,361,287	**$1,396,501**	**$2,475,480**	**$2,611,123**	**$2,263,984**	**$1,661,459**	**$1,756,192**
Working capital changes							
Increase (decrease) in current assets:							
Cash and temporary cash investments	$ (2,676)	$ (63,336)	$ 98,738	$ (133,700)	$ 116,377	$ (30,772)	$ (40,556)
Accounts receivable	(13,832)	66,654	350,682	286,649	1,195	66,453	109,655
Inventories	(3,061)	(4,844)	142,965	131,137	81,905	92,212	36,426
Other	503	4,502	23,630	28,642	22,369	57,989	10,477
(Increase) decrease in current liabilities:							
Accounts payable	(54,387)	(30,894)	(157,131)	(93,125)	(224,546)	(64,585)	(49,347)
Advance billing for service	(4,797)	(5,169)	(6,987)	(2,828)	(16,999)	(10,106)	(10,056)
Dividends payable	(4,396)	(6,680)	(10,676)	(11,651)	(12,529)	(5,095)	(2,436)
Taxes accrued	24,861	12,501	(90,671)	37,446	36,045	27,852	(56,993)
Interest accrued	(6,493)	(10,829)	(15,336)	(7,378)	(20,009)	(24,237)	(36,868)
Debt due within one year	(43,140)	(4,274)	(85,155)	(25,290)	31,627	(159,229)	(137,061)
Increase (decrease) in working capital, as above	**$ (107,418)**	**$ (42,369)**	**$ 250,059**	**$ 209,902**	**$ 15,435**	**$ (49,518)**	**$ (176,759)**

BELL CANADA

NON-CONSOLIDATED INCOME STATEMENT
(thousands of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Telecommunications operations							
Operating revenues							
Local service	$ 990,259	$1,107,640	$1,263,096	$1,392,707	$1,562,498	$1,125,352	$1,337,399
Long distance service	867,679	970,453	1,152,507	1,329,670	1,529,014	1,104,056	1,337,776
Miscellaneous — net	45,986	55,322	81,827	94,731	111,604	82,096	103,880
Total operating revenues	**1,903,924**	**2,133,415**	**2,497,430**	**2,817,108**	**3,203,116**	**2,311,504**	**2,779,055**
Operating expenses	1,367,677	1,572,495	1,784,497	2,054,466	2,390,316	1,756,561	2,080,000
Net revenues — telecommunications operations	**536,247**	**560,920**	**712,933**	**762,642**	**812,800**	**554,943**	**699,055**
Other income							
Dividends — subsidiary companies	18,172	19,637	21,357	24,232	29,738	22,091	23,436
— associated companies	6,971	7,362	7,559	8,485	9,063	6,695	7,325
Allowance for funds used during construction	14,734	15,683	13,530	19,964	18,554	14,004	16,498
Miscellaneous — net	25,350	10,279	14,342	28,159	18,468	11,020	26,535
Total other income	**65,227**	**52,961**	**56,788**	**80,840**	**75,823**	**53,810**	**73,794**
Income before underlisted items	**601,474**	**613,881**	**769,721**	**843,482**	**888,623**	**608,753**	**772,849**
Interest charges							
Interest on long term debt	173,399	199,253	228,160	247,808	279,473	202,278	243,383
Other interest	3,886	3,140	2,860	4,781	7,469	6,776	3,544
Total interest charges	**177,285**	**202,393**	**231,020**	**252,589**	**286,942**	**209,054**	**246,927**
Unrealized foreign currency losses	—	—	5,487	9,890	10,029	7,072	10,297
Income before income taxes	**424,189**	**411,488**	**533,214**	**581,003**	**591,652**	**392,627**	**515,625**
Income taxes	185,696	178,593	240,118	256,370	272,561	177,103	235,832
Income — telecommunications operations	**238,493**	**232,895**	**293,096**	**324,633**	**319,091**	**215,524**	**279,793**
Contract operations							
Operating revenues	—	—	185,653	319,795	453,605	322,360	333,586
Operating expenses	—	—	165,843	252,141	362,113	252,573	252,636
Net revenues — contract operations	**—**	**—**	**19,810**	**67,654**	**91,492**	**69,787**	**80,950**
Miscellaneous — net	—	—	(2,761)	(7,199)	3,593	584	(2,491)
Income before income taxes	**—**	**—**	**17,049**	**60,455**	**95,085**	**70,371**	**78,459**
Income taxes	—	—	9,328	29,278	48,235	35,539	39,050
Income — contract operations	**—**	**—**	**7,721**	**31,177**	**46,850**	**34,832**	**39,409**
Income before extraordinary item	**238,493**	**232,895**	**300,817**	**355,810**	**365,941**	**250,356**	**319,202**
Extraordinary item (note 4)	—	—	4,122	29,835	—	—	—
Net income	**$ 238,493**	**$ 232,895**	**$ 304,939**	**$ 385,645**	**$ 365,941**	**$ 250,356**	**$ 319,202**
Net income	$ 238,493	$ 232,895	$ 304,939	$ 385,645	$ 365,941	$ 250,356	$ 319,202
Dividends on preferred shares	28,847	31,534	38,702	30,521	38,243	27,689	26,867
Net income applicable to common shares	**$ 209,646**	**$ 201,361**	**$ 266,237**	**$ 355,124**	**$ 327,698**	**$ 222,667**	**$ 292,335**
Earnings per common share* (note 5)							
— before extraordinary item	$ 1.74	$ 1.58	$ 1.96	$ 2.13	$ 2.01	$ 1.38	$ 1.69
— after extraordinary item	$ 1.74	$ 1.58	$ 1.99	$ 2.32	$ 2.01	$ 1.38	$ 1.69
Assuming full dilution							
— before extraordinary item	$ 1.65	$ 1.56	$ 1.91	$ 2.08	$ 1.99	$ 1.37	$ 1.67
— after extraordinary item	$ 1.65	$ 1.56	$ 1.93	$ 2.26	$ 1.99	$ 1.37	$ 1.67
Dividends declared per common share	**$ 1.19**	**$ 1.36**	**$ 1.43**	**$ 1.55**	**$ 1.68**	**$ 1.23**	**$ 1.35**
*Based on weighted average common shares outstanding (thousands)	120,317	127,662	133,396	152,810	162,762	161,786	172,627

BELL CANADA

NON-CONSOLIDATED BALANCE SHEET
(thousands of dollars)

ASSETS

	As at September 30, 1981	1980
Telecommunications property — at cost (note 13)		
Buildings, plant and equipment	$11,021,768	$10,011,664
Less: Accumulated depreciation	3,411,817	3,050,972
	7,609,951	6,960,692
Land	87,182	82,114
Plant under construction	335,938	257,057
Material and supplies	111,089	107,961
	8,144,160	7,407,824
Investments — at cost		
Subsidiary companies	345,260	323,450
Associated companies	107,971	107,971
	453,231	431,421
Current assets		
Cash and temporary cash investments — at cost (approximates market)	90,495	57,650
Accounts receivable — (including $4,328 ($3,692 — 1980) from subsidiary and associated companies, and less $4,750 ($2,801 — 1980) for provision for uncollectibles)	657,875	697,664
Other	54,884	58,371
	803,254	813,685
Other assets		
Cash and temporary cash investments held for contract operations — at cost (approximates market)	22,548	91,474
Deferred charges — contract operations	32,995	57,017
— unrealized foreign currency losses, less amortization	164,254	126,631
— other	48,526	46,032
	268,323	321,154
Total assets	**$ 9,668,968**	**$ 8,974,084**

LIABILITIES AND SHAREHOLDERS' EQUITY

	1981	1980
Capital stock authorized (note 7)		
Common shareholders' equity		
Common shares (note 8)	$ 1,459,889	$ 1,369,356
Premium on capital stock	983,088	865,423
Retained earnings	969,717	881,184
	3,412,694	3,115,963
Convertible preferred shares (redeemable) (note 9)	263,233	370,130
Non-convertible preferred shares (redeemable) (note 9)	104,430	109,835
Long term debt (including unrealized foreign currency losses) (note 10)	3,650,251	3,278,663
Current liabilities		
Accounts payable — (including $94,989 ($69,798 — 1980) to subsidiary companies)	402,419	344,159
Advance billing for service	61,044	57,229
Dividends payable	85,555	75,515
Taxes accrued	72,388	33,577
Interest accrued	115,315	93,679
Debt due within one year (note 11)	157,668	180,960
	894,389	785,119
Deferred credits		
Income taxes	1,161,977	1,028,817
Other (note 12)	181,994	285,557
	1,343,971	1,314,374
Commitments and contingent liabilities (notes 12 and 13)		
Total liabilities and shareholders' equity	**$ 9,668,968**	**$ 8,974,084**

Approved by the Board of Directors:
(Signed) W. F. LIGHT, Director — (Signed) LOUISE B. VAILLANCOURT, Director

BELL CANADA

NON-CONSOLIDATED STATEMENT OF RETAINED EARNINGS
(thousands of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Balance at beginning of period	$ 594,085	$ 658,213	$ 682,748	$ 751,554	$ 861,322	$ 861,322	$ 910,875
Net income	238,493	232,895	304,939	385,645	365,941	250,356	319,202
Excess of par value over cost of preferred shares purchased for cancellation (note 9)	203	66	4	37	341	154	776
	832,781	891,174	987,691	1,137,236	1,227,604	1,111,832	1,230,853
Deduct:							
Dividends —							
Preferred shares —							
$3.20 shares	1,643	935	634	384	334	253	197
$3.34 shares	2,455	1,103	645	316	246	188	151
$4.23 shares	8,454	8,385	7,352	1,474	590	482	256
$2.28 shares	11,400	11,397	11,390	5,316	2,042	1,714	788
$1.96 shares	—	—	9,060	13,478	11,145	8,648	3,372
$2.05 shares	—	—	—	—	14,569	9,389	15,392
$2.25 shares	3,530	3,414	3,321	3,253	3,092	2,327	2,226
$1.80 shares	1,365	6,300	6,300	6,300	6,225	4,688	4,485
	28,847	31,534	38,702	30,521	38,243	27,689	26,867
Common shares	143,969	175,626	193,113	240,571	274,884	199,872	234,081
	172,816	207,160	231,815	271,092	313,127	227,561	260,948
Expenses of issues of capital stock	1,752	1,266	4,322	4,822	3,602	3,087	188
	174,568	208,426	236,137	275,914	316,729	230,648	261,136
Balance at end of period	$ 658,213	$ 682,748	$ 751,554	$ 861,322	$ 910,875	$ 881,184	$ 969,717
Dividends per share —							
Preferred shares —							
$3.20 shares	$3.20	$3.20	$3.20	$3.20	$3.20	$2.40	$2.40
$3.34 shares	$3.34	$3.34	$3.34	$3.34	$3.34	$2.50	$2.50
$4.23 shares	$4.23	$4.23	$4.23	$4.23	$4.23	$3.17	$3.17
$2.28 shares	$2.28	$2.28	$2.28	$2.28	$2.28	$1.71	$1.71
$1.96 shares	—	—	$1.30	$1.96	$1.96	$1.47	$1.47
$2.05 shares	—	—	—	—	$1.45	$0.94	$1.54
$2.25 shares	$2.25	$2.25	$2.25	$2.25	$2.25	$1.68	$1.68
$1.80 shares	$0.39	$1.80	$1.80	$1.80	$1.80	$1.35	$1.35
Common shares	$1.19	$1.36	$1.43	$1.55	$1.68	$1.23	$1.35

Non-Consolidated Statement of Premium on Capital Stock for Bell Canada is not presented here because it is the same as Consolidated Statement of Premium on Capital Stock for Bell Canada and Subsidiary Companies.

BELL CANADA

NON-CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(thousands of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Source of funds							
Operations							
Income before extraordinary item	$ 238,493	$ 232,895	$ 300,817	$ 355,810	$ 365,941	$ 250,356	$ 319,202
Items not affecting funds							
Depreciation	385,410	427,853	473,993	531,032	586,666	434,206	479,304
Deferred income taxes	87,509	102,765	68,891	107,769	125,493	93,188	100,855
Allowance for funds used during construction	(14,734)	(15,683)	(13,530)	(19,964)	(18,554)	(14,004)	(16,498)
Other — net	6,929	7,255	15,800	(18,344)	(20,632)	(13,319)	(24,721)
Total from operations	**703,607**	**755,085**	**845,971**	**956,303**	**1,038,914**	**750,427**	**858,142**
Net proceeds from the sale of common shares of a subsidiary	—	—	4,778	34,585	—	—	—
Proceeds from long term debt	251,663	255,204	415,409	238,668	487,376	260,291	184,088
Issue of common shares							
—underwritten issue	—	—	—	194,109	—	—	—
—upon exercise of warrants	763	118,607	—	—	—	—	—
—under the Dividend Reinvestment and Stock Purchase Plan	—	—	30,134	64,125	83,037	51,920	53,302
—under the Optional Stock Dividend Program	—	—	—	—	1,510	—	6,326
—upon conversion of convertible preferred shares	34,655	18,952	125,820	74,044	71,064	46,586	82,420
Proceeds from issue of preferred shares	68,248	—	170,903	—	196,757	196,757	—
Advance payment on contract operations	—	—	190,587	—	—	—	—
Decrease in cash and temporary cash investments held for contract operations	—	—	—	42,319	—	—	43,902
Miscellaneous	11,608	17,356	95,107	116,763	30,665	20,504	20,288
Decrease in working capital	137,453	88,312	—	—	—	13,180	235,591
	$1,207,997	**$1,253,516**	**$1,878,709**	**$1,720,916**	**$1,909,323**	**$1,339,665**	**$1,484,059**
Disposition of funds							
Capital expenditures							
Gross capital expenditures	$ 901,324	$ 951,079	$1,003,672	$1,116,743	$1,296,997	$ 930,099	$ 989,470
Deduct: charges not requiring funds	(25,221)	(14,703)	(22,709)	(11,749)	(13,724)	(8,519)	(7,472)
Increase (decrease) in material and supplies	27,567	(3,234)	4,729	20,406	(19,375)	(14,364)	8,139
Net expenditures	**903,670**	**933,142**	**985,692**	**1,125,400**	**1,263,898**	**907,216**	**990,137**
Dividends	172,816	207,160	231,815	271,092	313,127	227,561	260,948
Reduction of long term debt	93,145	76,604	114,992	105,358	71,556	70,071	93,029
Acquisition of investments	1,670	3,545	4,024	106,493	23,779	13,836	14,216
Conversion of preferred shares	34,684	18,975	125,848	74,047	71,065	46,588	82,420
Increase in cash and temporary cash investments held for contract operations	—	—	91,851	—	16,918	41,942	—
Deferred charges — contract operations	—	—	112,912	—	—	—	—
Miscellaneous	2,012	14,090	7,429	3,646	46,270	32,451	43,309
Increase in working capital	—	—	204,146	34,880	102,710	—	—
	$1,207,997	**$1,253,516**	**$1,878,709**	**$1,720,916**	**$1,909,323**	**$1,339,665**	**$1,484,059**
Working capital changes							
Increase (decrease) in current assets:							
Cash and temporary cash investments	$ (43,450)	$ (84,209)	$ 192,539	$ (118,779)	$ 107,911	$ (29,873)	$ (104,939)
Accounts receivable	(14,466)	25,066	210,079	167,331	(6,583)	55,645	22,439
Other	(1,133)	830	3,241	7,181	3,938	38,411	30,986
(Increase) decrease in current liabilities:							
Accounts payable	(71,114)	6,718	(61,086)	(84,007)	(59,870)	(6,588)	(4,978)
Advance billing for service	(4,001)	(4,757)	(5,758)	(2,407)	(10,121)	(9,446)	(3,140)
Dividends payable	(4,629)	(6,897)	(10,679)	(8,970)	(13,162)	(5,739)	(2,617)
Taxes accrued	36,574	4,184	(96,492)	52,803	25,102	18,641	(45,272)
Interest accrued	(5,780)	(10,836)	(14,508)	(5,129)	(15,491)	(20,814)	(26,959)
Debt due within one year	(29,454)	(18,411)	(13,190)	26,857	70,986	(53,417)	(101,111)
Increase (decrease) in working capital, as above	**$ (137,453)**	**$ (88,312)**	**$ 204,146**	**$ 34,880**	**$ 102,710**	**$ (13,180)**	**$ (235,591)**

BELL CANADA AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

1. Accounting policies

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles and conform in all material respects with International Accounting Standards.

Bell Canada and its telephone subsidiary and associated companies are subject to regulation, including examination of accounting practices, by their respective regulatory authorities. The system of accounts and accounting practices are similar to those being used in the telecommunications industry.

Consolidation — The consolidated financial statements include the accounts of all, directly or indirectly, majority-owned subsidiaries except for finance subsidiaries of Northern Telecom Limited. These non-consolidated finance subsidiaries and the investments in associated companies (50% or less, and 20% or more) are accounted for by the equity method. The finance subsidiaries are not consolidated as their business is fundamentally different from that of the consolidated group (see note 3).

The associated companies of Bell Canada and its subsidiaries at September 30, 1981 were Maritime Telegraph and Telephone Company, Limited(1), The New Brunswick Telephone Company, Limited, Telesat Canada, Sotel Inc., and Edward H. O'Brien Pty. Limited.

The companies in which Bell Canada had a direct investment of more than 50% of the common shares outstanding at September 30, 1981 were:

	%
Northern Telecom Limited	55.1
Newfoundland Telephone Company Limited	64.3
Northern Telephone Limited	99.8
Télébec Ltée	100
The Capital Telephone Company Limited	100
The North American Telegraph Company	100
Bell Canada — International Management, Research and Consulting Ltd.	100

The excess of cost of shares over acquired equity (goodwill) is being amortized to earnings over periods not exceeding forty years. Such amortization amounted to $645,000 in 1976, $929,000 in 1977, $4,142,000 in 1978, $4,128,000 in 1979, $2,769,000 in 1980 and $2,516,000 and $1,711,000 in the nine months ended September 30, 1980 and 1981, respectively. In addition, $89,412,000 representing the unamortized excess of cost of shares over acquired equity, related to the acquisition of Sycor, Inc. and Data 100 Corporation, was fully written off in 1980 (see note 4).

(1) At September 30, 1981, Bell Canada was the registered owner of 2,172,200 or 37.0% of the outstanding common shares of Maritime Telegraph and Telephone Company, Limited; however, under a statute passed by the Legislature of Nova Scotia, not more than 1,000 shares may be voted by any one shareholder.

Manufacturing sales comprise:

(thousands of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	1977	1978	1979	1980	1980	1981
Sales to:							
Bell Canada	$ 531,704	$ 533,235	$ 536,684	$ 616,006	$ 630,895	$ 461,224	$ 590,517
Telephone subsidiary and associated companies of Bell Canada	65,903	52,046	50,694	43,522	55,287	41,922	58,194
Sub total	597,607	585,281	587,378	659,528	686,182	503,146	648,711
Sales to others	475,749	609,447	882,619	1,204,632	1,332,363	992,506	1,184,864
Total sales	$1,073,356	$1,194,728	$1,469,997	$1,864,160	$2,018,545	$1,495,652	$1,833,575

1. **Accounting policies (continued)**
Consolidation (continued)

Telecommunications equipment, purchased by Bell Canada and its telephone subsidiaries from Northern Telecom Limited and its subsidiaries, is reflected in the consolidated balance sheet at cost to the purchasing companies, and is included in Manufacturing sales in the consolidated income statement. To the extent that any income on these sales and those to associated companies has not been offset by depreciation or other operating expenses, it remains in consolidated retained earnings and consolidated income. This practice is generally followed in the industry. All other significant intercompany transactions have been eliminated in the accompanying consolidated financial statements.

Depreciation — Depreciation is computed on the straight line method using rates based on the estimated useful lives of the assets.

When depreciable telecommunications property is retired, the amount at which such property has been carried in Telecommunications property is charged to Accumulated depreciation.

Depreciation expense, including amortization of property held under capital leases, and the composite rates were:

	(dollars in thousands)			
	Consolidated		Bell Canada	
Year ended December 31,	**Expense**	**Rate**	**Expense**	**Rate**
1976	$430,241	6.14%	$385,410	6.08%
1977	479,915	6.16%	427,853	6.06%
1978	550,058	6.33%	473,993	6.07%
1979	646,970	6.55%	531,032	6.06%
1980	732,320	6.64%	586,666	6.03%
Nine months ended September 30,				
1980	543,369	6.66%	434,206	6.02%
1981	599,403	6.59%	479,304	6.01%

Research and development — All research and development costs are charged to income in the periods in which they are incurred.

Total research and development expense was:

	(thousands of dollars)	
Year ended December 31,	**Consolidated**	**Bell Canada**
1976	$ 84,205	$ 22,790
1977	112,668	44,447
1978	150,936	53,037
1979	183,744	51,033
1980	197,319	56,298
Nine months ended September 30,		
1980	143,719	38,166
1981	176,890	52,196

Translation of foreign currencies — Current assets (excluding inventories and prepaid expenses), current liabilities and long term monetary assets and liabilities are translated at the rates in effect at the balance sheet date, whereas other assets (including inventories and prepaid expenses) and other liabilities are translated at rates prevailing at the respective transaction dates. Revenues and expenses are translated at

1. **Accounting policies (continued)**

Translation of foreign currencies (continued)

average rates prevailing during the periods except for cost of inventories used, depreciation and amortization which are translated at rates prevailing when the related assets were manufactured or acquired. Currency gains and losses are reflected in net income of the periods except for unrealized foreign currency gains and losses on long term monetary assets and liabilities which are amortized over the remaining lives of the related items.

Unrealized foreign currency (gains) losses charged to income consist of the following:

(thousands of dollars)

	Year ended December 31,					Nine months ended September 30,	
	1976	**1977**	**1978**	**1979**	**1980**	**1980**	**1981**
Amortization of foreign currency losses on long term debt	$ —	$ —	$ 7,197	$11,338	$11,202	$ 7,488	$ 8,803
(Gains) losses on translation of foreign currency financial statements and net assets denominated in foreign currencies	(1,774)	(5,987)	(6,938)	(653)	51	299	(3,219)
	$(1,774)	$(5,987)	$ 259	$10,685	$11,253	$ 7,787	$ 5,584

Leases — Leases are classified as capital or operating leases. Assets recorded under capital leases are amortized on a straight line method using rates based on the estimated useful life of the asset or based on the lease term as appropriate. Obligations recorded under capital leases are reduced by rental payments net of imputed interest.

Inventories — Inventories are valued at the lower of cost (calculated generally on a first-in, first-out basis) and net realizable value. The cost of finished goods and work-in-process inventories is comprised of material, labour and manufacturing overhead.

Allowance for funds used during construction — Regulatory authorities require the telephone companies to provide for a return on capital invested in new telephone plant while under construction by including an allowance for funds used during construction as an item of income during the construction period and also as an addition to the cost of the plant constructed. Such income is not realized in cash currently but will be realized over the service life of the plant.

Contract operations — Bell Canada provides consulting services under contract to clients, principally foreign telecommunications organizations. The accounting method generally known as percentage-of-completion is used in the determination of net income for such operations.

Income taxes — Bell Canada and its subsidiaries use the tax allocation basis of accounting for income taxes.

At September 30, 1981 foreign subsidiaries of Northern Telecom had tax loss carry-forwards for accounting purposes of approximately $171,000,000 on which tax benefits have not been recognized in the accounts and which are available to reduce taxable income in future years. Of the total, $100,000 will expire if not used in 1981, $4,100,000 will expire if not used between 1982 and 1987, $136,800,000 will expire in 1995, $20,000,000 in 1996, while $10,000,000 can be carried forward indefinitely.

2. Equity in net income of associated companies

This item represents the share of net income of companies accounted for by the equity method, except for the finance subsidiaries. See note 3.

The dividends received from companies accounted for by the equity method amounted to:

Year ended December 31,	(thousands of dollars)
1976	$ 7,641
1977	8,056
1978	7,926
1979	9,345
1980	12,501
Nine months ended September 30,	
1980	9,828
1981	9,524

3. Non-consolidated finance subsidiaries

Income from operations of the finance subsidiaries of Northern Telecom Limited reduces consolidated interest on long term debt; unrealized foreign currency gains or losses and income taxes are included in the respective captions of the consolidated income statement. The following is a summary of the combined financial data of these companies:

	(thousands of dollars)		
	Year ended December 31,	Nine months ended September 30,	
	1980	1980	1981
Income	$ 65,119	$ 44,461	$ 76,183
Interest expense	(2,168)	(722)	(8,452)
Other expenses	(1,951)	(828)	(13,896)
Income from operations	61,000	42,911	53,835
Unrealized foreign currency gains (losses)	6,013	(107)	4,606
Income taxes	(8,835)	(6,733)	(9,787)
Net income	$ 58,178	$ 36,071	$ 48,654

	September 30, 1981	September 30, 1980
Total assets	$504,253	$352,727
Total liabilities	$147,606	$ 26,987
Shareholders' equity	$356,647	$325,740

4. Extraordinary items

Year ended December 31,

1976-1977 — reduction of income taxes of $2,188,000 for 1976 and $2,367,000 for 1977, net of minority interest, arising from the utilization of prior years' tax losses of a subsidiary of Northern Telecom Limited.

4. Extraordinary items (continued)

1978 — i) reduction of income taxes of $8,964,000, net of minority interest, arising from the utilization of prior years' tax losses of subsidiaries.

— ii) increase of $17,474,000 in book value in subsidiaries, reported on a consolidated basis, resulting principally from the issuance of common shares by Northern Telecom Limited upon the acquisition of Sycor, Inc. The Canadian practice is to include this increase as income whereas the practice in the United States is to treat it as paid-in capital.

— iii) provision of $1,948,000, net of income taxes of $3,648,000 and minority interest of $1,244,000, for costs of terminating the electrical and electronic products distribution business of Northern Telecom Limited.

— iv) gain of $4,122,000 (Bell Canada only), net of income taxes of $565,000, arising from the sale, upon exercise of warrants, of common shares of Northern Telecom Limited.

1979 — gain of $29,835,000 (Bell Canada only), net of income taxes of $4,145,000, arising from the sale, upon exercise of warrants which were exercisable prior to December 1, 1979, of common shares of Northern Telecom Limited.

1980 — loss of $90,015,000, net of income taxes of $3,241,000 and minority interest of $73,744,000 resulting from write-offs by Northern Telecom Limited of unamortized goodwill and technology investments and from the discontinuance of certain elements of the electronic office systems business of Sycor, Inc. and Data 100.

Nine months ended September 30,

1981 — gain of $8,728,000, net of income taxes of $19,920,000 and minority interest of $7,227,000 resulting from the sale of investment in Intersil, Inc. by Northern Telecom Limited.

5. Earnings per common share

Earnings per common share are based on weighted average shares outstanding.

For the computation of the earnings per share, assuming full dilution, the dividends on convertible preferred shares have been added back to income. For the year 1976, the computation also includes the dilutive effect of warrants outstanding as of the end of the year.

6. Inventories

	(thousands of dollars)	
	September 30, 1981	September 30, 1980
Raw materials	$172,151	$200,299
Work-in-process	240,495	201,939
Finished goods	198,224	182,513
	$610,870	$584,751

7. Capital stock authorized

By charter — $5,000,000,000.

By shareholders — $5,000,000,000 divided into common shares of the par value of $8⅓ each, and: (a) not more than 2,000,000 of a class of preferred shares to a maximum aggregate amount of $94,000,000; (b) not more than 9,000,000 of another class of preferred shares to a maximum aggregate amount of $225,000,000; (c) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $219,000,000; (d) not more than 7,000,000 of another class of preferred shares to a maximum aggregate amount of $175,000,000; and (e) ten additional classes of preferred shares to a maximum aggregate amount of $1,000,000,000.

8. Common shares

Outstanding

	(dollars in thousands)			
	September 30, 1981		September 30, 1980	
	Number of shares	Amount	Number of shares	Amount
Par value of $8⅓ per share	175,186,720	$1,459,889	164,322,672	$1,369,356

Number of common shares issued during the periods are as follows:

	Nine months ended September 30,	
	1981	1980
For cash		
— under the Shareholder Dividend Reinvestment and Stock Purchase Plan	2,965,495	2,756,755
— under the Employees' Saving Plan (1966)	532,670	464,399
Upon conversion of preferred shares	4,050,090	2,623,814
Under the Optional Stock Dividend Program*	335,725	—
	7,883,980	5,844,968

*Under the Optional Stock Dividend Program, which became effective with the quarterly common dividend paid on October 15, 1980, shareholders may elect to receive dividends on common shares in the form of additional common shares.

Common shares reserved at September 30, 1981 — 26,834,560:

11,799,523 shares for issuance under the Shareholder Dividend Reinvestment and Stock Purchase Plan.

170,717 shares for issuance under the Employees' Savings Plan (1966).

13,283,038 shares for issuance upon conversion of all convertible preferred shares.

1,581,282 shares for issuance under the Optional Stock Dividend Program.

9. Preferred shares

Outstanding

	(dollars in thousands)			
	September 30, 1981		September 30, 1980	
	Number of shares	Amount	Number of shares	Amount
Convertible preferred shares (redeemable)				
$3.20 shares (par value of $47 per share)	77,187	$ 3,628	102,587	$ 4,822
$3.34 shares, class B, series B (par value of $52 per share)	55,156	2,868	71,412	3,713
$4.23 shares, class C, series D (par value of $47 per share)	69,715	3,277	106,223	4,992
$2.28 shares, class C, series E (par value of $25 per share)	370,041	9,251	579,706	14,493
$1.96 shares, class D, series G (par value of $25 per share)	1,772,837	44,321	5,685,514	142,138
$2.05 shares, class E, series H (par value of $20 per share)	9,994,398	199,888	9,998,600	199,972
Total par value of convertible preferred shares		$ 263,233		$ 370,130
Non-convertible preferred shares (redeemable)				
$2.25 shares, class B, series C (par value of $30 per share)	1,301,200	$ 39,036	1,361,435	$ 40,843
$1.80 shares, class B, series F (par value of $20 per share)	3,269,700	65,394	3,449,600	68,992
Total par value of non-convertible preferred shares		$ 104,430		$ 109,835

During the nine months ended September 30, 1980, Bell Canada sold 10,000,000 $2.05 preferred shares of the par value of $20 each.

9. Preferred shares (continued)

Following is a brief summary of the material characteristics of the preferred shares:

		Redeemable at Bell Canada's option	Preferred to common conversion basis	Convertible to	Number of shares converted at Sept. 30, 1981 and for periods ending Sept. 30,	Purchase fund requirements (d)
Convertible (a)	$3.20 shares	Currently at $47.50 per share to Feb. 1, 1982 and at $47 thereafter.	1 for 3	Feb. 1, 1982	1,922,813 including 1981 — 22,915 (1980 — 6,404)	—
	$3.34 shares	Currently at $53 per share to Aug. 1, 1982 and at reducing amounts thereafter to $52 after Aug. 1, 1983.	1 for 3	Aug. 1, 1983	1,944,844 including 1981 — 14,052 (1980 — 10,008)	—
	$4.23 shares	Currently at $51 per share to Dec. 1, 1981 and at reducing amounts thereafter to $47 after Dec. 1, 1986.	1 for 3	Dec. 1, 1986	1,930,285 including 1981 — 28,539 (1980 — 152,956)	69,715 in 1982
	$2.28 shares	Currently at $27 per share to Jul. 2, 1982 and at reducing amounts thereafter to $25 after Jul. 2, 1987.	2 for 3	Jul. 2, 1987	4,629,959 including 1981 — 161,458 (1980 — 879,944)	Annually 250,000 shares commencing in 1983
	$1.96 shares	On May 1, 1984 at $26.50 per share to May 1, 1985 and at reducing amounts thereafter to $25 after May 1, 1990. (b)	5 for 6	May 1, 1990	5,227,163 including 1981 — 3,006,429 (1980 — 662,038)	Quarterly 87,500 shares commencing in 1986
	$2.05 shares	On April 15, 1986 at $21.50 to April 15, 1987 and at reducing amounts thereafter to $20 after April 15, 1992. (c)	1 for 1	Apr. 15, 1992	5,602 including 1981 — 3,690 (1980 — 1,400)	Quarterly 125,000 shares commencing in 1988
Non-convertible (a)	$2.25 shares	On Oct. 1, 1983 at $31.50 per share to Oct. 1, 1988 and at reducing amounts thereafter to $30 after Oct. 1, 2003.	—	—	—	Annually 51,000 shares
	$1.80 shares	On Oct. 2, 1986 at $21.20 per share to Oct. 2, 1991 and at reducing amounts thereafter to $20 after Oct. 2, 2006.	—	—	—	Quarterly 26,250 shares

(a) The preferred shareholders are entitled to cumulative dividends at the respective rates set out in the titles of each issue and have one vote per share.

(b) In the event that not more than 1,050,000 $1.96 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $25.

(c) In the event that not more than 1,500,000 $2.05 preferred shares remain outstanding, Bell Canada may redeem all, but not part, of such shares at $20.

(d) Purchase funds:

Under the terms and conditions of the purchase funds, Bell Canada shall make all reasonable efforts to purchase the required number of shares for cancellation in the open market at a price not exceeding the par value per share plus costs of purchase. To the extent that Bell Canada is unable to purchase such shares, the undertaking is cumulative to a maximum of two years or eight quarters as the case may be, including the current period requirements.

At September 30, 1981, 398,800 $2.25 preferred shares with an aggregate par value of $11,964,000 had been purchased and cancelled (including 41,800 shares with an aggregate par value of $1,254,000 during the nine months ended September 30, 1981).

At September 30, 1981, 230,300 $1.80 preferred shares with an aggregate par value of $4,606,000 had been purchased and cancelled (including 135,300 shares with an aggregate par value of $2,706,000 during the nine months ended September 30, 1981 which were purchased for the last three quarters of 1979 and the first three quarters of 1980).

Taking into account purchases to September 30, 1981, the maximum aggregate par value of shares that Bell Canada may be required to purchase, if available pursuant to the terms of the purchase funds, for the balance of 1981 and in the years 1982 to 1986 are $2,978,000, $6,907,000, $9,880,000, $6,631,000, $3,630,000 and $12,380,000, respectively.

10. Long term debt

Bell Canada

First mortgage bonds (secured by a first mortgage and floating charge)

Maturity date	Rate of interest	Series	(thousands of dollars) Outstanding September 30, 1981
January 2, 1982	5½ %	V	$ 40,000
August 2, 1982	5¾ %	T	50,000
March 15, 1983	4¼ %	P	50,000 (a)
June 15, 1984	5½ %	W	30,000
October 1, 1984	5¾ %	Y	30,000
August 1, 1985-1997	8⅜ %	AZ	26,000 (b)
January 2, 1986	6 %	U	35,000
July 15, 1987	6⅛ %	AE	35,000
May 1, 1988	4⅞ %	X	50,000 (a)
November 1, 1988	6¼ %	AH	50,000
January 15, 1989	9 %	AP	9,466
October 1, 1989	4.80%	Z	50,000 (a)
February 1, 1990	6⅜ %	AG	30,000
May 1, 1990	8¼ %	AO	600
August 14, 1990	9⅜ %	AQ	50,000
April 1, 1991	6 %	AD	26,500
November 1, 1991	7⅝ %	AL	30,000
March 15, 1992	8 %	AT	65,000
September 15, 1992	6¼ %	AI	45,000
April 14, 1993	8 %	AW	50,000
August 1, 1993	8⅜ %	AY	42,000
December 1, 1993	9⅜ %	AS	35,000
April 1, 1994-2003	7⅞ %	BB	40,000 (a,c)
May 1, 1994	8⅛ %	BD	50,000
November 15, 1994	8 %	AV	65,000
December 1, 1994	10½ %	BH	60,000 (d)
June 1, 1995-2004	9½ %	BE	130,000 (a,e)
September 1, 1995	4.85%	AA	50,000 (a)
December 1, 1995	4.85%	AB	28,000 (a)
June 3, 1996	10 %	BG	70,000
October 14, 1996	6 %	AF	44,000 (a)
February 1, 1997	8 %	BA	50,000
December 1, 1997	6.60%	AJ	51,000 (a)
September 17, 1998	6.90%	AM	75,000 (a)
April 1, 1999	9⅞ %	BJ	110,000
Sub-total — first mortgage bonds			1,652,566
Debentures			
July 15, 1985	10½ %	DI	200,000
July 15, 1986	8¾ %	DB	60,000 (a)
October 1, 1986	10¾ %	DH	60,000
May 1, 1987	7¾ %	DD	100,000 (a)
June 15, 1991	14½ %	DK	150,000 (a)
February 15, 2002	9.40%	DC	150,000
October 15, 2004	11 %	DG	175,000
October 15, 2005	9.85%	DF	200,000
April 1, 2006	8¾ %	DA	200,000 (a)
January 15, 2008	9 %	DE	200,000 (a)
October 15, 2010	13⅜ %	DJ	200,000 (a)
Sub-total — debentures			1,695,000
Other			
Mortgage (due in instalments to 1995 — 9% interest)			33,550 (a)
Promissory notes (due in 1990 — 12¾% interest)			22,000
Sub-total — other			55,550
Exchange premium less discount, at time of issue, on debt payable in U.S. funds			112,669
Unrealized foreign currency losses			199,920
			312,589 (f)
Obligations under capital leases			28,896
Sub-total — Bell Canada			3,744,601

10. Long term debt (continued)

Sub-total — Bell Canada (carried forward)	$3,744,601
Subsidiaries	
Northern Telecom Limited (including $293,778 due to non-consolidated finance subsidiaries)	545,799
Télébec Ltée	40,294
Tele-Direct Ltd.	61,457
Newfoundland Telephone Company Limited	99,335
Northern Telephone Limited	22,181
Obligations under capital leases	27,738
Unrealized foreign currency losses	8,476 (f)
Sub-total — subsidiaries	805,280 (h)
Sub-total — consolidated	4,549,881
Less: Due within one year (including $40,546 due to non-consolidated finance subsidiaries)	149,974
Total — consolidated	$4,399,907

(a) Payable in U.S. funds.

(b) Series AZ bonds mature $2,000,000 per annum on August 1 in each of the years 1985 to 1997 inclusive.

(c) Series BB bonds mature $4,000,000 U.S. per annum on April 1 in each of the years 1994 to 2003 inclusive.

(d) The holder of any series BH bonds will have the right to elect, after June 1, 1984 and prior to September 1, 1984, that Bell Canada shall prepay the principal amount of such bonds on March 1, 1985.

(e) Series BE bonds mature $13,000,000 U.S. per annum on June 1 in each of the years 1995 to 2004 inclusive.

(f) Arising from the translation of U.S. dollar denominated debt at rate prevailing on September 30, 1981.

(g) At September 30, 1981, the debt of non-consolidated finance subsidiaries of Northern Telecom Limited, due to banks, was $104,426,000.

(h) Details of long term debt of subsidiaries are as follows:

(thousands of dollars)

	Interest rates*					**Total**
Maturity date**	**5½-7⅞%**	**8¼-9⅞%**	**10¼-11¾%**	**12-17%**	**17⅜-21%**	**outstanding**
First mortgage bonds						
1981	$ —	$ —	$ —	$ —	$ —	$ —
1982	294	449	906	—	—	1,649
1983	—	450	913	—	—	1,363
1984	—	464	913	—	—	1,377
1985	—	478	913	—	—	1,391
1986	—	478	913	—	—	1,391
1987-1991	6,000	3,302	4,565	—	—	13,867
1992-1996	2,500	14,100	16,991	—	—	33,591
1997-2000	—	20,000	—	25,000	—	45,000
Debentures and other						
1981	1,205	966	33	65	1,094	3,363
1982	5,790	3,306	428	26,488	6,302	42,314
1983	2,761	4,031	401	752	12,125	20,070
1984	1,720	4,669	480	786	11,054	18,709
1985	50	700	413	19,319	35,538	56,020
1986	1,263	700	825	21,604	48	24,440
1987-1991	4,050	16,102	7,854	152,732	—	180,738
1992-1996	—	1,400	16,540	209	—	18,149
1997-2000	—	—	20,000	332	—	20,332
Due to non-consolidated finance subsidiaries						293,778
Obligations under capital leases						27,738
						$805,280

* Represent effective rates as at September 30, 1981. The total long term debt of subsidiaries with floating interest rates, including $293,778,000 due to non-consolidated finance subsidiaries, is $479,773,000 at September 30, 1981.

**Includes sinking fund requirements.

At September 30, 1981, the amounts of long term debt payable by Bell Canada and subsidiary companies for the balance of 1981 and in the years 1982 to 1986 are $21,053,000, $193,262,000, $105,179,000, $85,331,000, $264,381,000 and $200,174,000, respectively.

11. Debt due within one year

	(thousands of dollars)			
	September 30, 1981		September 30, 1980	
	Consolidated	Bell Canada	Consolidated	Bell Canada
Long term debt	$149,974	$ 94,350	$106,098	$ 56,465
Notes payable	230,185	63,318	331,626	124,495
Bank advances	31,361	—	27,591	—
	$411,520	$157,668	$465,315	$180,960

12. Guarantees

Included in Deferred credits-Other at September 30, 1981 is the balance of $25,000,000 of advance payment to be applied against amounts due to Bell Canada over the life of certain contract operations. A guarantee, equivalent to approximately $47 million at September 30, 1981 has been furnished in respect of such advance payment.

In addition, a performance guarantee has been furnished, in respect of such contract operations, equivalent to approximately $61 million at September 30, 1981.

13. Leases

Telecommunications property and Manufacturing and other property include property recorded under capital leases as follows:

	(thousands of dollars)			
	September 30, 1981		September 30, 1980	
	Consolidated	Bell Canada	Consolidated	Bell Canada
Telecommunications property				
Buildings, plant and equipment	$ 37,551	$ 37,551	$ 38,468	$ 38,468
Less: Accumulated depreciation	12,940	12,940	12,734	12,734
	24,611	24,611	25,734	25,734
Land	3,350	3,350	3,350	3,350
	27,961	$ 27,961	29,084	$ 29,084
Manufacturing and other property				
Buildings, plant and equipment	34,554		29,123	
Less: Accumulated depreciation	10,069		6,847	
	24,485		22,276	
	$ 52,446		$ 51,360	

The future minimum lease payments under capital leases, and operating leases that have initial non-cancellable lease terms in excess of one year as of September 30, 1981 are as follows:

	(thousands of dollars)			
	Capital leases		Operating leases	
	Consolidated	Bell Canada	Consolidated	Bell Canada
1981	$ 4,506	$ 2,679	$ 21,130	$ 14,565
1982	14,116	8,454	68,949	48,296
1983	12,849	7,899	56,337	38,936
1984	11,618	6,715	46,190	31,602
1985	10,877	6,096	25,124	13,441
1986	10,274	5,577	18,776	9,512
Thereafter	75,274	33,292	66,125	29,492
Total future minimum lease payments	139,514	70,712	$302,631	$185,844
Less: Estimated executory costs	33,323	24,806		
Net minimum lease payments	106,191	45,906		
Less: Imputed interest	49,557	17,010		
Present value of net minimum lease payments	$ 56,634	$ 28,896		

13. Leases (continued)

Rental expense applicable to operating leases was:

	(thousands of dollars)	
Year ended December 31,	**Consolidated**	**Bell Canada**
1976	$ 67,877	$ 52,910
1977	78,805	57,138
1978	92,846	65,093
1979	107,370	71,430
1980	121,646	82,324
Nine months ended September 30,		
1980	89,173	57,062
1981	99,190	68,081

14. Pensions

Bell Canada and most of its subsidiary companies have non-contributory defined benefit plans which provide for service pensions based on length of service and rates of pay for substantially all their employees.

The policy is to fund pension costs through contributions based on various actuarial cost methods as permitted by pension regulatory bodies. Such costs are funded as accrued and reflect actuarial assumptions regarding salary projection and future service benefits. In 1980 certain pension plans were amended to provide improved benefits to active and retired employees.

The total provisions for the cost of pension plans were:

	(thousands of dollars)	
Year ended December 31,	**Consolidated**	**Bell Canada**
1976	$115,066	$ 79,160
1977	132,349	94,556
1978	145,452	105,597
1979	182,197	131,764
1980	218,111	158,703
Nine months ended September 30,		
1980	161,542	118,426
1981	185,814	136,726

In compliance with the United States Financial Accounting Standards Board Statement No. 36, the disclosure of the following information is required to exclude actuarial assumptions regarding salary projection and future service benefits. Based on valuation data as at December 31, 1979 the actuarial present value of accumulated plan benefits totals $1,641 million, of which $1,429 million was for vested benefits and $212 million for non-vested benefits. The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7%. Net assets, at market value, available for the above benefits were $1,655 million at that date.

15. Industry segments information

Bell Canada and its subsidiary and associated companies operate principally in two business segments:

1) Telecommunications operations, which includes the provision of voice, visual, data, radio and television transmission, public exchange and private line teletypewriter and other telecommunications services; and

2) Telecommunications equipment manufacturing, which involves the design, manufacture and sale of central office switching equipment, subscriber apparatus and business communications systems, transmission equipment and wire, cable and related outside plant products.

In addition "Other" includes the following business activities: contract operations, electronic office systems, directory and printing operations and for 1978 distributing operations.

15. Industry segments information (continued)

The following table sets forth revenues and sales, net revenues and supplementary data for each of the company's business segments for the years ended December 31, 1978, 1979 and 1980.

	(millions of dollars)		
	1978	1979	1980
By segments			
Revenues and sales			
Telecommunications operations	$ 2,580 (a)	$ 2,915 (a)	$ 3,311 (a)
Telecommunications equipment manufacturing	1,131 (b)	1,504 (b)	1,751 (b)
Other	663 (b)	846	975
Consolidated	$ 4,374	$ 5,265	$ 6,037
Intersegment sales			
Telecommunications operations	$ 42	$ 47	$ 55
Telecommunications equipment manufacturing	27	3	2
Other	114	105	135
Eliminations	(183)	(155)	(192)
	$ —	$ —	$ —
Total revenues			
Telecommunications operations	$ 2,622	$ 2,962	$ 3,366
Telecommunications equipment manufacturing	1,158	1,507	1,753
Other	777	951	1,110
Eliminations	(183)	(155)	(192)
Consolidated	$ 4,374	$ 5,265	$ 6,037
Total net revenues			
Telecommunications operations	$ 756	$ 811	$ 868
Telecommunications equipment manufacturing	180	232	187
Other	84 (a)	128 (a)	53 (a)
	1,020	1,171	1,108
General corporate expenses	(74)	(78)	(83)
Consolidated	946	1,093	1,025
Equity in net income of associated companies			
Telecommunications operations	13	16	16
Telecommunications equipment manufacturing	1	—	—
Other	3	3	5
	17	19	21
Other income	32	54	52
Interest charges	(264)	(313)	(359)
Unrealized foreign currency losses	—	(10)	(11)
Income before income taxes, minority interest and extraordinary items	$ 731 (c)	$ 843	$ 728
Identifiable assets			
Telecommunications operations	$ 7,028	$ 7,629	$ 8,435
Telecommunications equipment manufacturing	718	983	1,146
Other	872	1,089	989
Eliminations	(89)	(119)	(150)
Consolidated	8,529	9,582	10,420
Investments in associated companies and non-consolidated subsidiaries			
Telecommunications operations	110	117	124
Telecommunications equipment manufacturing	3	2	—
Other	38	298	371
Consolidated	151	417	495
General corporate assets	525 (d)	378 (d)	534 (d)
Total assets as at December 31	$ 9,205	$10,377	$11,449

15. Industry segments information (continued)

	(millions of dollars) 1978	1979	1980
By segments			
Depreciation			
Telecommunications operations	$ 497	$ 558	$ 617
Telecommunications equipment manufacturing	25	34	42
Other	25	52	70
	547	644	729
Depreciation—general corporate assets	3	3	3
Total depreciation	$ 550	$ 647	$ 732
Capital expenditures			
Telecommunications operations	$ 1,054	$ 1,176	$ 1,364
Telecommunications equipment manufacturing	54	79	128
Other	65	93	102
Eliminations	—	(3)	—
	1,173	1,345	1,594
Capital expenditures—general corporate assets	11	6	4
Total capital expenditures	$ 1,184	$ 1,351	$ 1,598

The following table sets forth information by geographic area for the years ended December 31, 1978, 1979 and 1980.

	(millions of dollars) 1978	1979	1980
By geographic area (e)			
Revenues and sales			
Canada	$ 3,670	$ 4,014	$ 4,576
U.S.A.	469	766	838
Other	235	485	623
Consolidated	$ 4,374	$ 5,265	$ 6,037
Transfers between area			
Canada	$ 86	$ 67	$ 88
U.S.A.	20	20	67
Other	1	—	3
Eliminations	(107)	(87)	(158)
	$ —	$ —	$ —
Total revenues			
Canada	$ 3,756	$ 4,081	$ 4,664
U.S.A.	489	786	905
Other	236	485	626
Eliminations	(107)	(87)	(158)
Consolidated	$ 4,374	$ 5,265	$ 6,037
Total net revenues (losses) before research and development expenses			
Canada	$ 1,047	$ 1,120	$ 1,207
U.S.A.	96	144	(23)
Other	28	92	119
Eliminations	—	(1)	2
	1,171	1,355	1,305
Research and development expenses	(151)	(184)	(197)
General corporate expenses	(74)	(78)	(83)
Consolidated	946	1,093	1,025
Equity in net income of associated companies			
Canada	13	16	16
U.S.A.	3	2	4
Other	1	1	1
	17	19	21
Other income	32	54	52
Interest charges	(264)	(313)	(359)
Unrealized foreign currency losses	—	(10)	(11)
Income before income taxes, minority interest and extraordinary items	$ 731 (c)	$ 843	$ 728

15. Industry segments information (continued)

By geographic area (e)

	(millions of dollars)		
	1978	1979	1980
Identifiable assets			
Canada	$ 7,538	$ 8,185	$ 9,260
U.S.A.	628	893	884
Other	401	570	414
Eliminations	(38)	(66)	(138)
Consolidated	8,529	9,582	10,420
Investments in associated companies and non-consolidated subsidiaries			
Canada	110	117	124
U.S.A.	38	44	66
Other	3	256	305
Consolidated	151	417	495
General corporate assets	525 (d)	378 (d)	534 (d)
Total assets as at December 31	$ 9,205	$10,377	$11,449

a) Telecommunications operations segment revenues include $21 million ($13 — 1978, $19 — 1979) consisting principally of contract service agreement revenues and contribution to overhead, which are also included as operating expenses in Other net revenues. These items are not eliminated on consolidation.

b) Telecommunications equipment manufacturing includes sales of $686 million ($583 — 1978, $660 — 1979) and, for 1978, Other included sales of $4 million to Bell Canada, its telephone subsidiary and associated companies. These sales are not eliminated on consolidation. Telecommunications equipment manufacturing sales of Northern Telecom Limited to Bell Canada are at prices and terms as low as those offered to Northern Telecom's most favored customers for like materials and services under comparable conditions.

c) Income before income taxes, minority interest and extraordinary items includes continuing and discontinued operations for 1978.

d) General corporate assets are principally cash, temporary cash investments and deferred unrealized foreign currency losses.

e) The point of origin of revenues and sales and the location of the assets determine the geographic area.

16. Subsequent events

i) On November 3, 1981, Bell Canada entered into the following agreements:

a) the sale to Union Bank of Switzerland, for purpose of private placement, of Swiss Francs 150,000,000 principal amount 8⅛% Series 1 Notes (equivalent to approximately Can. $99,878,000) dated November 19, 1981 and to mature on November 19, 1987; and

b) the sale to underwriters, for purpose of public issue in Switzerland, of Swiss Francs 100,000,000 principal amount 7¼% Series 2 Debentures (equivalent to approximately Can. $66,586,000) dated November 19, 1981 and to mature on November 19, 1993.

The closing of both issues took place on November 19, 1981.

ii) On December 16, 1981, Northern Telecom sold privately U.S. $50,000,000 of 12¼% subordinated convertible notes, to mature December 1, 1993. These notes are redeemable at Northern Telecom's option; after December 16, 1986, the notes are convertible into common shares of Northern Telecom at a price of U.S. $61.50 per share. Under certain circumstances, Northern Telecom may prepay them prior to December 16, 1986 and the holders may elect to convert at that time.

iii) On January 2, 1982, Bell Canada repaid $40,000,000 principal amount of its 5½% first mortgage bonds, Series V, which matured on that date.

iv) On • , 1982, Bell Canada entered into an agreement for the sale to underwriters of • $ • Cumulative Redeemable Convertible Voting Preferred Shares, Class E, Series I, of the par value of $ • each for the sum of $ • after deducting underwriting commission.

PURCHASER'S STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION

Sections 64 and 65 of The Securities Act (Alberta), sections 71 and 72 of The Securities Act (Saskatchewan), and sections 63 and 64 of The Securities Act (Manitoba) provide, in effect, that where a security is offered to the public in the course of distribution:

(a) a purchaser will not be bound by an agreement for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the vendor or the vendor's agent not later than midnight on the second business day after the prospectus or amended prospectus offering such security is received or is deemed to be received by the purchaser or the purchaser's agent, and

(b) a purchaser has the right to rescind a contract for the purchase of such security, while still the owner thereof, if the prospectus or any amended prospectus offering such security contains an untrue statement of a material fact or omits to state a material fact necessary in order to make any statement therein not misleading in the light of the circumstances in which it was made, but no action to enforce this right can be commenced by a purchaser after the expiration of 90 days from the later of the date of such contract or the date on which such prospectus or amended prospectus is received or is deemed to be received by the purchaser or the purchaser's agent.

Sections 60 and 61 of the Securities Act (British Columbia) provide, in effect, that, where a security is offered to the public in the course of primary distribution, a purchaser has the same right of rescission described in (b) above and also that a purchaser has a right to rescind a contract for the purchase of a security, while still the owner thereof, if a copy of the last prospectus, together with financial statements and reports and summaries of reports relating to the securities as filed with the British Columbia Superintendent of Brokers, was not delivered to him or his agent prior to delivery to either of them of the written confirmation of the sale of the securities. Written notice of intention to commence an action for rescission must be served on the person who contracted to sell within 60 days of the date of delivery of the written confirmation, but no action shall be commenced after the expiration of three months from the date of service of such notice.

Sections 70, 126 and 135 of the Securities Act (Ontario) provide, in effect, that when a security is offered in the course of a distribution:

(a) a purchaser will not be bound by a contract for the purchase of such security if written or telegraphic notice of his intention not to be bound is received by the dealer from whom the purchaser purchased the security not later than midnight on the second business day after the latest prospectus and any amendment to the prospectus offering such security is received or deemed to be received by him or his agent,

(b) when a prospectus together with any amendment to the prospectus contains a misrepresentation, a purchaser who purchases a security offered thereby during the period of distribution shall be deemed to have relied on such misrepresentation if it was a misrepresentation at the time of purchase and, subject to the limitations set forth in the Act, has a right of action for damages against (i) the issuer or a selling securities holder on whose behalf the distribution is made, (ii) each underwriter required to sign the certificate required by section 58 of the Act, (iii) every director of the issuer at the time the prospectus or amendment was filed, (iv) every person or company whose consent has been filed pursuant to a requirement of the regulations under the Act but only with respect to reports, opinions or statements made by them, and (v) every other person or company who signed the prospectus or the amendment; or where the purchaser purchased the security from a person or company referred to in (i) or (ii) above or from another underwriter of the securities, he may elect to exercise a right of rescission against such person, company or underwriter, in which case he shall have no right of action for damages against such person, company or underwriter, and

(c) no action to enforce a right of rescission can be commenced by a purchaser after the expiration of 180 days from the date of the transaction that gave rise to the cause of action; or, in the case of any action, other than for an action for rescission, no action to enforce the right can be commenced by a purchaser after the earlier of 180 days after he first had knowledge of the facts giving rise to the cause of action or three years after the date of the transaction that gave rise to the cause of action.

Reference is made to the aforesaid Acts for the complete texts of the provisions under which the foregoing rights are conferred and the foregoing summary is subject to the express provisions thereof.

CERTIFICATE OF BELL CANADA

Dated: January 27, 1982

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 7 of the Securities Act (British Columbia), by Part 7 of The Securities Act (Alberta), by Part VIII of The Securities Act (Saskatchewan), by Part VII of The Securities Act (Manitoba), by Part XIV of the Securities Act (Ontario) and by the Securities Act (Québec) and the respective regulations thereunder, and by Section 13 of the Securities Act (New Brunswick).

(Signed) A. J. DE GRANDPRÉ
Chief Executive Officer

(Signed) J. STUART SPALDING
Vice-President & Treasurer

On behalf of the Board of Directors

(Signed) H. L. MARGISON
Director

(Signed) J. W. KERR
Director

CERTIFICATE OF UNDERWRITERS

Dated: January 27, 1982

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part 7 of the Securities Act (British Columbia), by Part 7 of The Securities Act (Alberta), by Part VIII of The Securities Act (Saskatchewan), by Part VII of The Securities Act (Manitoba), by Part XIV of the Securities Act (Ontario) and by the Securities Act (Québec) and the respective regulations thereunder and by Section 13 of the Securities Act (New Brunswick).

Wood Gundy Limited

By: (Signed) J. M. G. Scott

Dominion Securities Ames Limited

By: (Signed) L. H. Goth

Greenshields Incorporated

By: (Signed) J. H. Bridgman

Richardson Securities of Canada

By: (Signed) André Saumier

McLeod Young Weir Limited

By: (Signed) W. John Bennett

Lévesque, Beaubien Inc.

By: (Signed) G. Carrière

The following includes the names of all persons having an interest either directly or indirectly to the extent of not less than 5% in the capital of:

Wood Gundy Limited: C. E. Medland, J. N. Abell, W. D. Bean, J. R. LeMesurier, J. M. G. Scott, and I. S. Steers;

Dominion Securities Ames Limited: A. S. Fell, J. B. Pitblado, G. S. Dembroski, R. E. Bellamy, E. C. Lipsit, C. R. Younger, D. L. Erwood, B. W. Douglas, L. H. Goth, G. L. Ball, M. J. Biscotti and D. O. Hawkey;

Greenshields Incorporated: M. B. Deans, B. P. Drummond, M. J. Howe, Peter Kilburn, F. S. Martin, J. B. Newman, J. P. W. Ostiguy, E. D. Scott, B. G. Willis and E. F. Hutton & Company Inc.;

Richardson Securities of Canada: George T. Richardson;

McLeod Young Weir Limited: None; and

Lévesque, Beaubien Inc.: André Charron, J.-Louis Lévesque, S. E. Brock and F. R. Graham.

SCHEDULE

The definitions herein apply only to this section entitled "Schedule", and may not be consistent with definitions used elsewhere in this Prospectus.

The $ ● Cumulative Redeemable Convertible Voting Preferred Shares, Class E, Series I of the par value of ● dollars ($ ●) each (the "Series I Preferred Shares") of Bell Canada (the "Company"), have attached thereto the following preferences, privileges, rights, restrictions, conditions and limitations.

The Series I Preferred Shares shall rank on a parity with the $3.20 Cumulative Redeemable Convertible Voting Preferred Shares of the par value of forty-seven dollars ($47.00) each (the "$3.20 Preferred Shares"), with the $3.34 Cumulative Redeemable Convertible Voting Preferred Shares of the par value of fifty-two dollars ($52.00) each (the "$3.34 Preferred Shares"), with the $4.23 Cumulative Redeemable Convertible Voting Preferred Shares of the par value of forty-seven dollars ($47.00) each (the "$4.23 Preferred Shares"), with the $2.28 Cumulative Redeemable Convertible Voting Preferred Shares of the par value of twenty-five dollars ($25.00) each (the "$2.28 Preferred Shares"), with the $1.96 Cumulative Redeemable Convertible Voting Preferred Shares of the par value of twenty-five dollars ($25.00) each (the "$1.96 Preferred Shares"), with the $2.05 Cumulative Redeemable Convertible Voting Preferred Shares of the par value of twenty dollars ($20.00) each (the "$2.05 Preferred Shares"), with the $2.25 Cumulative Redeemable Voting Preferred Shares of the par value of thirty dollars ($30.00) each (the "$2.25 Preferred Shares") and with the $1.80 Cumulative Redeemable Voting Preferred Shares of the par value of twenty dollars ($20.00) each (the "$1.80 Preferred Shares") both as to the order of priority in payment of dividends and in the distribution of assets in the event of any liquidation, dissolution or winding up of the Company, whether voluntary, or involuntary, or other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs.

1. Dividend

The holders of the Series I Preferred Shares shall be entitled to fixed, cumulative, preferred cash dividends, when and as declared by the Board of Directors, out of moneys properly applicable to the payment of dividends, in the amount of ● dollars and ● cents ($ ●) per share per annum and no more, such dividends to be payable quarterly in respect of each twelve (12) month period on the 15th day of February, May, August and November, by cheque at par in lawful money of Canada at any branch in Canada of the Company's bankers, except that the first quarterly payment so to be made on any Series I Preferred Share shall be the amount accrued and unpaid thereon at the said rate from the ●th day of ● , 1982 to the 15th day of May, 1982.

2. Rights on Liquidation

In the event of the liquidation, dissolution or winding up of the Company or any other distribution of assets of the Company for the purpose of winding up its affairs, the holders of the Series I Preferred Shares shall be entitled to receive $ ● per share together with all dividends accrued and unpaid to the date of distribution before any amounts shall be paid or any assets of the Company distributed to the holders of any shares ranking junior to the Series I Preferred Shares. The holders of the Series I Preferred Shares shall not be entitled to share in any further distribution of the property or assets of the Company.

3. Redemption

The Company may not redeem any of the Series I Preferred Shares prior to ● , 198●. Subject to section 7 hereof, upon giving notice as hereinafter provided, the Company may, on or after ● , 198●, redeem at any time all the outstanding Series I Preferred Shares, or from time to time any part thereof, on payment for each such share to be redeemed of $ ● with a premium of:

● dollar and ● cents ($ ●) if redeemed on or before ● ,
● dollar and ● cents ($ ●) if redeemed thereafter and on or before ● ,
● dollar ($ ●) if redeemed thereafter and on or before ● ,
● cents ($ ●) if redeemed thereafter and on or before ● ,
● cents ($ ●) if redeemed thereafter and on or before ● ,
● cents ($ ●) if redeemed thereafter and on or before ● ,

in each case together with accrued and unpaid dividends to the date fixed for redemption, the whole constituting the redemption price. In the case of partial redemptions Series I Preferred Shares to be redeemed shall be selected by lot or in such other manner as the Company may determine.

The Company shall give at least thirty (30) days' prior notice in writing to each person who at the date of giving such notice is the holder of Series I Preferred Shares to be redeemed of the intention of the Company to redeem such shares; such notice shall be given by posting the same in a postage paid envelope addressed to each holder of Series I Preferred Shares to be redeemed at the last address of such holder as it appears on the books of the Company or, in the event of the address of any holder not so appearing, then to the address of such holder last known to the Company; provided that the accidental failure or omission to give any such notice as aforesaid to one or more of such holders shall not affect the validity of the redemption as to the other holders of the Series I Preferred Shares to be redeemed. Such notice shall set out the number of such Series I Preferred Shares held by the person to whom it is addressed which are to be redeemed and the redemption price (and, if given prior to ● , ● , shall contain a brief statement of the conditions on which the Series I Preferred Shares which are called for redemption may be converted into common shares pursuant to the provisions hereof) and shall also set out the date on which the redemption is to take place, and on and after the date so specified for redemption the Company shall pay or cause to be paid to the holders of such Series I Preferred Shares to be redeemed the redemption price on presentation and surrender at the head office of the Company, or at any other place or places within Canada designated by such notice, of the certificate or certificates for such Series I Preferred Shares so called for redemption; such payment shall be made by cheque payable at par at any branch in Canada of the Company's bankers; if a part only of such Series I Preferred Shares represented by any certificate shall be redeemed, a new certificate for the balance shall be issued; from and after the date specified in any such notice, the Series I Preferred Shares called for redemption shall cease to be entitled to dividends and the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof unless payment of the redemption price shall not be duly made by the Company; at any time after notice of redemption is given as aforesaid, the Company shall have the right to deposit the redemption price of any or all Series I Preferred Shares called for redemption with any chartered bank or banks or with any trust company or trust companies in Canada named in the notice of redemption to the credit of a special account or accounts in trust for the respective holders of such shares, to be paid to them respectively upon surrender to such bank or banks or trust company or trust companies of the certificate or certificates representing the same, and upon such deposit or deposits being made, such shares shall be redeemed on the redemption date specified in the notice of redemption; after the Company has made a deposit as aforesaid with respect to any shares, the holders thereof shall not be entitled to exercise any of the rights of shareholders in respect thereof and the rights of the holders thereof shall be limited to receiving the proportion of the amounts so deposited applicable to such shares, without interest; any interest allowed on such deposit shall belong to the Company.

4. Additional Right of Redemption

Notwithstanding section 3 hereof and subject to section 7 hereof the Company may, in the event that not more than ●% (● shares) of the Series I Preferred Shares originally issued remain outstanding, redeem all, but not part, of such Series I Preferred Shares on payment for each such share to be redeemed of $ ● without premium together with accrued and unpaid dividends to the date fixed for redemption. The procedure for redemption hereunder shall be as provided in the second paragraph of section 3 hereof.

5. Purchase for Cancellation

Subject to section 7 hereof, the Company may also at any time or times purchase for cancellation the whole or any part of the Series I Preferred Shares outstanding from time to time, in the open market through or from an investment dealer or any firm holding membership on a recognized stock exchange, at the lowest price or prices at which in the opinion of the Directors such shares are obtainable but not exceeding $ ● , together with a premium of ● per cent (● %) thereof if purchased prior to ● , ● , and not exceeding an amount equal to the redemption price at which, at date of purchase, such shares are redeemable as provided in section 3 hereof if purchased on or after ● , ● , plus in each case costs of purchase.

6. Purchase Fund

The Company shall make all reasonable efforts to purchase for cancellation in the open market • % of the Series I Preferred Shares outstanding at the close of business on • , 1992 at such time or times in each calendar quarter as it in its discretion shall determine, commencing with the calendar quarter ending June 30, 1992, at a price not exceeding $ • per share plus costs of purchase.

To the extent that the Company is unable to purchase such number of Series I Preferred Shares during any such calendar quarter, this undertaking of the Company shall be cumulative in the calendar quarters of the same calendar year after which it shall be extinguished.

Any Series I Preferred Shares purchased for cancellation in accordance with the provisions of section 5 hereof may be applied by the Company as a purchase fund credit.

7. Restrictions on Payment of Dividends and Return of Capital

The Company shall not declare, pay or set apart any dividends on any shares of the Company ranking junior to the Series I Preferred Shares (other than stock dividends in any shares of the Company ranking junior to the Series I Preferred Shares) nor shall the Company call for redemption or purchase for cancellation less than all the Series I Preferred Shares then outstanding or any shares of the Company ranking junior to the Series I Preferred Shares unless all dividends up to and including the dividend payable for the last completed period for which such dividends shall be payable on all of the Series I Preferred Shares then outstanding shall have been declared and paid or set apart for payment.

8. Voting Rights

The holders of the Series I Preferred Shares on record dates shall be entitled to notice of and to attend and vote at meetings of shareholders of the Company and shall have one vote in respect of each Series I Preferred Share held.

9. Issue of Additional Preferred Shares and Amendment of Rights, Preferences, etc. of the Series I Preferred Shares

The Company may issue additional preferred shares ranking on a parity with the Series I Preferred Shares without the authorization of the holders of the Series I Preferred Shares.

The Company shall not without, but may from time to time with (in addition to the authorization by resolution and any other authorization which may be necessary), the authorization of the holders of Series I Preferred Shares given as hereinafter specified delete or vary any preferences, privileges, rights, restrictions, conditions and limitations attaching to the Series I Preferred Shares or create any additional preferred shares ranking in priority to the Series I Preferred Shares.

10. Authorization of Holders of Series I Preferred Shares

Any authorization given by the holders of Series I Preferred Shares shall be deemed to have been sufficiently given if it shall have been given by a resolution passed at a general meeting of the holders of the Series I Preferred Shares duly called and held upon not less than twenty-one (21) days' notice at which the holders of at least a majority of the outstanding Series I Preferred Shares are present or are represented by proxy and carried by the affirmative vote of not less than two-thirds (⅔) of the votes cast at such meeting; if at any such meeting the holders of a majority of the outstanding Series I Preferred Shares are not present or represented by proxy within one-half hour after the time appointed for such meeting then the meeting shall be adjourned to such date not less than twenty-one (21) days thereafter and to such time and place as may be designated by the Chairman, and not less than fifteen (15) days' written notice shall be given of such adjourned meeting; at such adjourned meeting the holders of Series I Preferred Shares present or represented by proxy may transact the business for which the meeting was originally called and a resolution passed thereat by the affirmative vote of not less than two-thirds (⅔) of the votes cast at such meeting shall constitute the authorization of the holders of the Series I Preferred Shares; on every poll taken at any such meeting or adjourned meeting, every holder of Series I Preferred Shares shall be entitled to one (1) vote in respect of each Series I Preferred Share held; subject to the foregoing, the formalities to be observed in respect of the giving of notice of any such meeting or adjourned meeting and the conduct thereof shall be those from time to time prescribed in the by-laws of the Company with respect to meetings of shareholders.

11. Definitions

In the provisions herein contained attaching to the Series I Preferred Shares:

(a) ''in priority to'' and ''on a parity with'' have reference to the order of priority in payment of dividends and in the distribution of assets in the event of any liquidation, dissolution or winding up of the Company, whether voluntary or involuntary, or other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs;

(b) ''accrued and unpaid dividends'' means an amount computed on the basis of an aggregate sum of $ ● per share per annum as though dividends on each such share had been accruing on a day to day basis from ● , 1982, to the date to which the computation of accrued dividends is to be made, after deducting all dividend payments made on such share;

(c) ''common shares'' means and includes the common shares of the par value of $8⅓ each of the Company as at present constituted and any shares resulting from any reclassification or change thereof;

(d) ''basic conversion price'' means the price per common share provided in section 15 hereof;

(e) ''current conversion price'' means as at any particular time the basic conversion price unless an adjusted conversion price is in effect under the provisions of section 16 hereof in which case it means such adjusted conversion price;

(f) ''current conversion basis'' means at any particular time the result obtained (expressed to the nearest 1/1000th of a common share) by dividing the current conversion price into $ ● ;

(g) ''certificate of the Company'' means a certificate under the corporate seal of the Company signed by the Chairman or the President or the Vice-Chairman or a Vice-President and by the Corporate Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer of the Company and may consist of one or more instruments so executed;

(h) ''current market price'' means a price per common share equal to the weighted average price, as defined hereafter, at which the common shares have traded on the Montreal and Toronto stock exchanges during any period of 30 consecutive trading days ending on a date within 15 business days preceding the applicable record date referred to in subsections (2) and (3) of section 16 hereof;

(i) ''weighted average price'' means, for a given period, the sum of the amounts resulting from the multiplication of the daily volume of common shares traded on a stock exchange by the arithmetic average of the high and low at which they have traded on such exchange during that day, divided by the total number of common shares traded on such stock exchange during such given period; and

(j) ''cash dividends paid in the ordinary course'' means cash dividends declared payable on the common shares of the Company from time to time to the extent that such cash dividends do not exceed in the aggregate in the fiscal year of the Company in which they are so declared the greatest of (i) 200% of the aggregate amount of cash dividends paid by the Company on the common shares of the Company during the immediately preceding fiscal year of the Company, (ii) 300% of the arithmetic mean of the cash dividends paid by the Company on the common shares of the Company during the immediately preceding three fiscal years of the Company, and (iii) 100% of the consolidated after tax net income of the Company, before extraordinary items, for the twelve month period immediately preceding a dividend payment date.

12. Conversion Privilege

The holder of Series I Preferred Shares shall have the right, at his option, at any time prior to the close of business on ● , 1992, to convert, subject to the terms and provisions hereof, such Series I Preferred Shares into common shares on the then current conversion basis; except that, in the case of Series I Preferred Shares which shall be called for redemption pursuant to section 3 or 4 hereof, such right shall terminate with respect thereto at the close of business on the last business day prior to the date fixed for such redemption; should payment of the redemption price of Series I Preferred Shares which have been called for redemption be not paid on due surrender of the certificate for such Series I Preferred Shares the right of conversion shall revive and continue from the time of the failure to pay as if such Series I Preferred Shares had not been called for redemption.

13. Manner of Exercise of Conversion Privilege

The conversion of Series I Preferred Shares may be effected by the surrender of the certificate or certificates representing the same at any time during usual business hours at the option of the holder at the head office of the Company or at any office of any transfer agent of the Company at which the Series I Preferred Shares are transferable accompanied: (1) by payment or evidence of payment of the tax (if any) payable as provided in section 21 hereof; and (2) by a written instrument of surrender in form satisfactory to the Company duly executed by the registered holder, or his attorney duly authorized in writing, in which instrument such holder may also elect to convert part only of:

(a) the Series I Preferred Shares represented by such certificate or certificates not theretofore called for redemption, in which event the Company shall issue and deliver or cause to be delivered to such holder, at the expense of the Company, a new certificate representing the Series I Preferred Shares represented by such certificate or certificates which have not been converted; or

(b) the Series I Preferred Shares, or part thereof, represented by such certificate or certificates, theretofore called for redemption, in which event on the date specified for the redemption of such Series I Preferred Shares such holder shall be entitled to payment of the redemption price of the Series I Preferred Shares represented by such certificate or certificates which have been called for redemption and which have not been converted as well as a certificate representing any Series I Preferred Shares represented by such certificate or certificates which have been neither converted nor redeemed.

As promptly as practicable after the surrender, as herein provided, of any Series I Preferred Shares for conversion, the Company shall issue and deliver, or cause to be delivered to or upon the written order of the holder of the Series I Preferred Shares so surrendered, a certificate or certificates issued in the name of, or in such name or names as may be directed by, such holder representing the number of fully paid and non-assessable common shares to which such holder is entitled together with a payment by cheque in respect of any fraction of a common share issuable on such conversion as provided in section 20 hereof; subject to the following provisions of this section, such conversion shall be deemed to have been made at the close of business on the date such Series I Preferred Shares shall have been surrendered for conversion, so that the rights of the holder of such Series I Preferred Shares as the holder thereof shall cease at such time and the person or persons entitled to receive common shares upon such conversion shall be treated for all purposes as having become the holder or holders of record of such common shares at such time and such conversion shall be on the current conversion basis as at such time; provided, however, that no such surrender on any date when the Company's registers of transfers of common shares shall be properly closed shall be effective to constitute the person or persons entitled to receive common shares upon such conversion as the holder or holders of record of such common shares on such date, but such surrender shall be effective to constitute the person or persons entitled to receive such common shares as the holder or holders of record thereof for all purposes at, and such conversion shall be on the current conversion basis as at, the close of business on the next succeeding day on which such registers of transfers are open; in no event shall the Company's registers of transfers of common shares be closed at any time during the thirty (30) days immediately preceding • , 1992; for these purposes the date of surrender of any Series I Preferred Shares for conversion shall be deemed to be the date when the certificate representing such Series I Preferred Shares is received by the Company or by a transfer agent of the Company as provided in this section.

14. No Adjustment for Dividends

The registered holder of any Series I Preferred Share on the record date for any dividend declared payable on such share shall be entitled to such dividend notwithstanding that such share is converted after such record date and before the payment date of such dividend and the registered holder of any common share resulting from any conversion shall be entitled to rank equally with the registered holders of all other common shares in respect of all dividends declared payable to holders of common shares of record on any date after the date of conversion; subject as aforesaid and subject to the provisions hereof, upon the conversion of any Series I Preferred Shares the Company shall make no payment or adjustment on account of any dividends on the Series I Preferred Shares so converted or on account of any dividends on the common shares issuable upon such conversion.

15. Conversion Basis and Price

Until adjusted as provided herein the conversion basis shall be one common share for one Series I Preferred Share and accordingly the basic conversion price shall be $ ● per common share.

16. Adjustment of Conversion Price

The current conversion price shall be subject to adjustment from time to time in the events and in the manner following:

(1) In case the Company shall (i) except as provided in paragraph (i) of subsection (1) of section 17, issue common shares of the Company to all or substantially all the holders of common shares by way of a stock dividend or otherwise, or (ii) subdivide its outstanding common shares into a greater number of shares, or (iii) consolidate its outstanding common shares into a smaller number of shares, or (iv) reclassify its outstanding common shares, the then current conversion price in effect at the time of the record date for such dividend or distribution or the effective date of such subdivision, consolidation or reclassification shall be proportionately adjusted. Any dividend or distribution on the common shares of the Company in common shares shall be deemed to have been issued or made immediately prior to the time of the record date for such dividend or distribution for purposes of calculating the number of outstanding common shares under subsections (2) and (3) below. Such adjustments shall be made successively whenever any event listed above shall occur.

(2) In case the Company shall fix a record date for the issuance of options, rights or warrants to all or substantially all the holders of its common shares entitling them (for a period expiring within 45 days after such record date) to subscribe for or purchase common shares (or securities convertible into or exchangeable for common shares) at a price per share (or having a conversion or exchange price per share) less than 95% of the current market price of a common share on such record date, the current conversion price shall be adjusted immediately thereafter so that it shall equal the price determined by multiplying the current conversion price in effect on such record date by a fraction, of which the numerator shall be the total number of common shares outstanding on such record date plus a number of common shares equal to the number arrived at by dividing the aggregate price of the total number of additional common shares so offered (or the aggregate conversion or exchange price of the convertible or exchangeable securities so offered) by such current market price per common share and of which the denominator shall be the total number of common shares outstanding on such record date plus the total number of additional common shares offered for subscription or purchase (or into which the convertible or exchangeable securities so offered are convertible or exchangeable, as the case may be). Common shares owned by or held for the account of the Company shall be deemed not to be outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed. To the extent that such options, rights or warrants are not so issued or such options, rights or warrants are not exercised prior to the expiration thereof, the current conversion price shall be readjusted to the current conversion price which would then be in effect based upon the number of common shares (or securities convertible or exchangeable into common shares), if any, actually delivered upon the exercise of such options, rights or warrants.

(3) In case the Company shall fix a record date for the making of a distribution to all or substantially all the holders of its common shares (i) of any shares of any class not included in the definition of common shares, or (ii) of evidences of indebtedness, or (iii) of assets (excluding cash dividends paid in the ordinary course and excluding dividends or distributions of common shares as provided in subsection (1) above and shares issued as stock dividends to holders of common shares as provided in paragraph (i) of subsection (1) of section 17), or (iv) of options, rights or warrants for a period expiring more than 45 days after such record date, then, in each such case the current conversion price shall be adjusted immediately after such record date so that it shall equal the price determined by multiplying the current conversion price in effect on such record date by a fraction, of which the numerator shall be the total number of common shares outstanding on such record date multiplied by the current market price of a common share on such record date, less the aggregate fair market value (as determined by the Board of Directors, whose determination shall be conclusive) of said shares or evidences of indebtedness or assets or options, rights or warrants so distributed and of which the denominator shall be the total number of common shares outstanding on such record date multiplied by such current market price of each such common share. Common shares owned by or

held for the account of the Company shall be deemed not to be outstanding for the purpose of any such computation. Such adjustment shall be made successively whenever such a record date is fixed. To the extent that such distribution is not so made, the current conversion price shall be readjusted to the current conversion price which would then be in effect based upon the said shares or evidences of indebtedness or assets or options, rights or warrants actually distributed.

(4) In case of any reclassification or change of the common shares (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or consolidation), or in case of any amalgamation of the Company with, or merger of the Company into, any other corporation (other than an amalgamation or merger in which the Company is the continuing corporation and which does not result in any reclassification or change, other than as aforesaid, of the common shares), or in case of any sale, transfer or other disposition of all or substantially all of the assets of the Company, the Company or the corporation formed by such amalgamation or the corporation into which the Company shall have been merged or the corporation which shall have acquired such assets, as the case may be, shall execute an undertaking providing that the holder of Series I Preferred Shares then outstanding shall have the right thereafter (until the expiration of the conversion right of such Preferred Shares) to convert such Series I Preferred Shares into the kind and amount of shares and other securities and property receivable upon such reclassification, change, amalgamation, merger, sale, transfer or other disposition by a holder of the number of common shares into which such Series I Preferred Shares might have been converted immediately prior to such reclassification, change, amalgamation, merger, sale, transfer or other disposition. The above provisions of this section shall similarly apply to successive reclassifications, changes, amalgamations, mergers, sales, transfers or other dispositions.

17. Rules Regarding Calculation of Adjustment of Conversion Price

(1) Nothing said or contained in section 16 or elsewhere herein shall be taken or construed as requiring adjustment in the current conversion price in any of the following cases:

(i) any resulting increase in the number of issued common shares where the Directors determine that part or all of a dividend on the common shares shall be payable in cash or, in the case of holders of common shares so electing, by the issuance of shares (and the shares are issued pursuant thereto); or

(ii) where an increase in the number of issued common shares results from the exercise of any non-transferable right, option or warrant extended or given to employees of the Company or any affiliate of the Company from time to time to subscribe for or purchase common shares or other shares of the Company; or

(iii) where the increase in the number of issued common shares results from the exercise of the right already or in future extended or given to all or substantially all of the holders of common shares to purchase additional common shares pursuant to the Company's present Shareholder Dividend Reinvestment and Stock Purchase Plan or any similar subsequent plan.

(2) No adjustments of the current conversion price shall be made pursuant to paragraph (i) of subsection (1) of section 16 or pursuant to subsections (2) and (3) of section 16 if the holders of the Series I Preferred Shares are permitted to participate in such dividend or distribution on the common shares of the Company in common shares, or are permitted to participate in the issue of such options, rights, warrants or in such distribution, as the case may be, as though and to the same effect as if they had converted their Series I Preferred Shares into common shares pursuant to section 12 hereof prior to the record date for such dividend or distribution or the issue of such options, rights or warrants or such distribution, as the case may be.

18. Evidence of Adjustment of Conversion Price

If and whenever any action is taken which requires an adjustment of the current conversion price under section 16 hereof, the Company shall forthwith file with all its transfer agents a certificate of the Company setting forth the details of the action taken, the adjusted conversion price and the resulting adjusted conversion basis; no such transfer agent shall be under any duty to make any investigation or inquiry as to the statements contained in any such certificate or the manner in which any computation was made, but any such transfer agent may accept such certificate as conclusive evidence of the statements therein contained and shall be fully protected with respect to any and all acts done or actions taken or suffered by it in reliance thereon; the Company shall exhibit a copy of such certificate from time to time to any holder of Series I Preferred Shares desiring to inspect the same, and shall give notice of any such

adjustment of the current conversion price and the resulting adjustment of the current conversion basis to the holders of Series I Preferred Shares by posting the same in a postage paid envelope addressed to each holder of Series I Preferred Shares at the last address of such holder as it appears on the books of the Company or, in the event of the address of any holder not so appearing, then to the address of such holder last known to the Company; the Company may retain a firm of independent chartered accountants (who may be the auditors of the Company) to make any computation required under section 16 hereof, and any computation so made shall be final and binding on the Company and all transfer agents and shareholders of the Company; such firm of independent chartered accountants may, as to questions of law, request and rely upon an opinion of counsel (who may be solicitors for the Company).

19. No Adjustment of Conversion Price Required in Certain Circumstances

No adjustment of the current conversion price shall be made if the amount of such adjustment would be less than one per cent (1%) of the current conversion price, but in such case any adjustment that would otherwise be required then to be made shall be carried forward and shall be made at the time of and together with the next subsequent adjustment which, together with all adjustments so carried forward, shall amount to not less than one per cent (1%) of the current conversion price.

20. Payment for Fractional Shares

Upon the surrender of any Series I Preferred Shares for conversion, the number of full common shares issuable upon conversion thereof shall be computed on the basis of the aggregate number of such Series I Preferred Shares to be converted; in any case where a fraction of a common share is involved the Company shall adjust such fractional interest by payment by cheque of an amount equal to the then current market value of such fractional interest computed on the basis of the average of the last sale prices (or last bid prices if there be no sales) for the common shares on the Montreal Stock Exchange and The Toronto Stock Exchange, on the business day on which either of such stock exchanges was open immediately preceding the date of such surrender.

21. Taxes on Conversion

The issuance of certificates for common shares upon the conversion of Series I Preferred Shares shall be made without charge to the converting holders of Series I Preferred Shares for any fee or tax in respect of the issuance of such certificates or the common shares represented thereby; provided, however, that the Company shall not be required to pay any tax which may be imposed upon the person or persons to whom such common shares are issued in respect of the issuance of such common shares or the certificates therefor or which may be payable in respect of any transfer involved in the issuance and delivery of any such certificate in a name or names other than that of the holder of the Series I Preferred Shares converted, and the Company shall not be required to issue or deliver such certificate unless the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

22. Redemption in Case of Amalgamation

Except as provided in section 4 hereof, the Series I Preferred Shares shall not be redeemable prior to ● , 198●, except that the Company shall be entitled to redeem all (but not less than all) the outstanding Series I Preferred Shares in accordance with the provisions of section 3 hereof on payment for each such share to be redeemed of the amount paid up thereon together with accrued and unpaid dividends to the date fixed for redemption if, but only if, such redemption is made in anticipation of or concurrently with any statutory amalgamation or arrangement or with any merger to which the Company is a party (other than a merger in which the Company is the surviving corporation and which does not result in any reclassification of or change in the outstanding common shares) which cannot be consummated without the authorization of the holders of the Series I Preferred Shares and which has not been so authorized notwithstanding the due calling of a meeting under section 10 hereof for such purpose.

23. Notice of Certain Action

Until the close of business on ● , 1992, the Company shall give at least twelve (12) days' public notice of the record date for any cash dividend, stock dividend or other distribution on its common shares and prompt public notice for the issue to any of its shareholders of rights to subscribe for common shares or other securities and shall give at least thirty (30) days' public notice before making any repayment of capital on its common shares.